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INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

HEARINGS BEFORE THE TEMPORARY NATIONAL ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES SEVENTY-SIXTH CONGRESS

FIRST SESSION

PURSUANT TO

Public Resolution No. 113 **(Seventy-fifth Congress)**

AUTHORIZING AND DIRECTING A SELECT COMMITTEE TO
MAKE A FULL AND COMPLETE STUDY AND INVESTIGA-
TION WITH RESPECT TO THE CONCENTRATION OF
ECONOMIC POWER IN, AND FINANCIAL CONTROL
OVER, PRODUCTION AND DISTRIBUTION
OF GOODS AND SERVICES

PART 10 - 10 A **LIFE INSURANCE**

INTERCOMPANY AGREEMENTS
TERMINATIONS
SAVINGS BANK INSURANCE
LEGISLATIVE ACTIVITIES

June 6, 7, 12, 13, 14, 15, 16, 20, and 21, 1939

Printed for the use of the Temporary National Economic Committee



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II

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CONTENTS

Testimony of—	Page
Bassford, H. R., actuary, Metropolitan Life Insurance Co., New York City	4541-4567
Beers, H. S., vice president, Aetna Life Insurance Co., Hartford, Conn.	4243-4258
Bolt, Dr. William, medical director, New York Life Insurance Co., New York City	4633-4642
Cammack, E. E., vice president and actuary, Aetna Life Insurance Co., Hartford, Conn.	4182-4222
Cathles, Lawrence M., president, North American Reassurance Co., New York City	4668-4684
Clark, Gilbert A., actuary, Equitable Life Insurance Co., Washington, D. C.	4313-4317
Cooney, Robert L., inspector of agencies, New York Life Insurance Co., Atlanta, Ga.	4396-4418
Davenport, Dr. Donald H., special economic consultant, insurance section, Securities and Exchange Commission, Washington, D. C.	4282-4312, 4684-4686
Dewey, Judd, deputy commissioner of Savings Bank Life Insurance in the State of Massachusetts, Boston, Mass.	4450-4500
Flynn, Benedict D., vice president and actuary, Travelers Insurance Co., Hartford, Conn.	4154-4182, 4224-4240, 4258-4266, 4275-4278
Hogg, Robert L., assistant general counsel, Association of Life Insurance Presidents, New York City	4375-4396, 4428-4443
Holcombe, John Marshall, Jr., director, Life Insurance Sales Research Bureau, Hartford, Conn.	4317-4338
Howell, Valentine, vice president and actuary, Prudential Insurance Co., of America, Newark, N. J.	4266-4275, 4619-4626
Hunter, Dr. Arthur, chief actuary and vice president New York Life Insurance Co., New York City	4505-4541, 4570-4576, 4583-4584
Hutcheson, William Anderson, actuary, Mutual Life Insurance Company, New York City	4626-4632
Jones, Frank L., vice president, Equitable Life Assurance Society of the United States, New York City	4648-4668
Laird, John M., vice president, Connecticut General Life Insurance Co., Hartford, Conn.	4240-4243
Marshall, Edward P. Wayne, vice president and actuary, Provident Mutual Life Insurance Co., Philadelphia, Pa.	4585-4596, 4603-4619
Montgomery, William, president Acacia Mutual Life Insurance Co., Washington, D. C.	4339-4343
Murphy, Ray D., vice president and actuary, Equitable Life Assurance Society of the United States, New York City	4576-4583, 4597-4603, 4642-4648
Plantz, C. B., assistant vice president, New York Savings Bank, New York City	4500-4504
Reilly, Joseph A., insurance section, Securities and Exchange Commission, Washington, D. C.	4447
Whitsitt, Vincent P., manager and general counsel, The Association of Life Insurance Presidents, New York City	4345-4373, 4389, 4394-4396, 4418-4446
Intercompany agreements	4153
The Group Association	4154
Nonparticipating rates	4224
Annuities	4505
Settlement options	4569
Surrender values and surrender charges	4611
Medical information bureau	4633
"Jumbo risks"	4642
Replacement agreement	4648
Reinsurance	4668

	Page
Terminations of life insurance—ordinary and industrial.....	4281, 4287, 4684
Theory of life insurance.....	4283
Lobbying and legislative activities—Association of Life Insurance Presi- dents.....	4345
Savings bank life insurance—opposition of insurance interests.....	4419
Savings bank life insurance—description.....	4449
Schedule and summary of exhibits.....	I
Tuesday, June 6, 1939.....	4153
Wednesday, June 7, 1939.....	4223
Monday, June 12, 1939.....	4281
Tuesday, June 13, 1939.....	4345
Wednesday, June 14, 1939.....	4375
Thursday, June 15, 1939.....	4449
Friday, June 16, 1939.....	4505
Tuesday, June 20, 1939.....	4569
Wednesday, June 21, 1939.....	4633
Appendix.....	4687
Supplemental data.....	4927
Index.....	I

SCHEDULE OF EXHIBITS

Number and summary of exhibits	Introduced at page	Appears on page
641. Table: Group life insurance, United States companies (1919-37)-----	4156	4687
642. Letter, dated Nov. 26, 1917, from E. B. Morris, actuary, Travelers Insurance Co., to J. D. Craig, assistant actuary, Metropolitan Life Insurance Co., stating lack of uniformity among companies writing group insurance a drawback-----	4163	4687
643. Memorandum, dated Apr. 12, 1919, from the actuary of the life department of the Travelers Insurance Co., to the president and vice president of Travelers Insurance Co., summarizing action taken at meeting of committee of actuaries in New York concerning group insurance-----	4165	4688
644. Memorandum, dated May 9, 1932, from B. D. Flynn, secretary, Travelers Insurance Co., to BroSmith, vice president and general counsel, Travelers Insurance Co., asking whether companies writing group insurance are violating antitrust laws; and memorandum of BroSmith in reply, dated May 11, 1922-----	4168	4689
645. Memorandum, dated Mar. 28, 1925, from B. D. Flynn, secretary of Travelers Insurance Co., to vice president and general counsel BroSmith, Travelers Insurance Co., concerning statement of representatives of Metropolitan Life Insurance Co. with regard to violation of certain laws by companies writing group insurance; and memorandum in reply, dated Mar. 30, 1925-----	4170	4690
646. Excerpts from statutes of Arizona, Georgia, Kansas, Nebraska, Oregon, South Carolina, Texas, and Washington, defining trusts and specifying antitrust violations in connection with activities of life insurance companies-----	4171	4692
647. Memorandum, dated Mar. 26, 1924, from B. D. Flynn, secretary, Travelers Insurance Co., to President Butler, Travelers Insurance Co., referring to minutes of last inter-company group meeting-----	4175	4701
648. Letter, dated Feb. 24, 1926, from Alfred Hurrell, vice president and general counsel, Prudential Insurance Co. of America, to William BroSmith, Esq., vice president and general counsel, Travelers Insurance Co., stating attitude on proposed constitution for Group Life Association-----	4177	4702
649. Letter, dated Mar. 12, 1926, from B. D. Flynn, secretary, Travelers Insurance Co., to H. S. Beers, associate actuary, Aetna Life Insurance Co., stating attitude of BroSmith concerning rules of Group Association-----	4177	4703
650. Art. 2, sec. 101-A, New York Insurance Law, subsec. 3, establishing uniform initial rate to be charged by domestic life insurance companies issuing group life insurance policies-----	4179	4703
651. Constitution of Group Association as amended February 1929-----	4180	4703
652. Table: Officers elected an annual meeting of Group Association, March 1926 to November 1938-----	4185	4705
653. Table: List of standing committees of Group Association-----	4185	4706
654. Table: Members of Group Association, 1926-28-----	4185	4707
655. Table: The Group Association, attendance at meetings-----	4186	4708
656. Table: Group life insurance in the United States comparing number of companies and insurance in force of Group Association with total number of companies and total amount of group insurance in force-----	4186	4710

Number and summary of exhibits	Introduced at page	Appears on page
657. Rulings of New York superintendent of insurance on group life insurance prepared to show relation between date of promulgation and dates rulings discussed or approved by association and/or recommended to superintendent-----	4191	4710
658. Underwriting rules of the Group Life Association-----	4204	4711
659. Table: Total group annuity business in force end of year 1935-38-----	4206	4716
660. Appears in Hearings, part VIII, appendix, p. 3487-----	4223	
661. Table: Stockholders dividends; Aetna Life Insurance Co., Connecticut General Life Insurance Co. and Travelers Insurance Co., 1929-38-----	4225	4717
662. Table: Exhibit of changes in surplus, ordinary nonparticipating business; Aetna Life Insurance Co., Connecticut General Life Insurance Co., and Travelers Insurance Co., 1929-38-----	4226	4717
663. Memorandum, dated June 22, 1932, from B. D. Glynn, vice president and actuary, Travelers Insurance Co., to President Zacher, Vice President Howard and Actuary Hammond, of Travelers Insurance Co., concerning new rates for life-insurance policies and possibilities of conference between Hartford nonparticipating companies-----	4229	4717
664. Memorandum, dated June 25, 1932, from H. Pierson Hammond, actuary, Travelers Insurance Co., to President Zacher, Vice President Howard, and Vice President and Actuary Flynn, Travelers Insurance Co., concerning new rates on life insurance policies-----	4231	4718
665. Letter, dated June 28, 1932, from B. D. Flynn, vice president and actuary, Travelers Insurance Co., to L. E. Zacher, president, Travelers Insurance Co., reporting tentative decisions reached concerning nonparticipating rates for life insurance policies among three Hartford companies-----	4233	4718
666. Memorandum, dated Oct. 20, 1932, from B. D. Flynn, vice president and actuary, Travelers Insurance Co., to Actuary Hammond and Assistant Actuary Hoskins, of Travelers Insurance Co., concerning modified life policy form sold by the Aetna Life Insurance Co.-----	4240	4719
667. Memorandum, dated Nov. 17, 1932, from M. B. Brainard, president, Aetna Life Insurance Co., to H. S. Beers, associate actuary, Aetna Life Insurance Co., referring to conversation with Mr. Huntington and Mr. Zacher on Aetna's modified life policy form and memorandum dated Nov. 16, 1932, of E. C. Henderson, actuary, to Mr. Huntington re continuation of present rates on Aetna's modified life policy-----	4243	4720
668. Memorandum, dated Dec. 6, 1932, from H. S. Beers, associate actuary, Aetna Life Insurance Co., to M. B. Brainard, Aetna Life Insurance Co., president, re modified life premium rates referring to meeting with representatives of Connecticut General and Travelers Life Insurance Cos.-----	4245	4721
669. Memorandum, dated Nov. 16, 1932 of H. Pierson Hammond, Travelers Insurance Co., concerning conversation with J. M. Laird, vice president and actuary, of Connecticut General on subject to Aetna's modified life policy form-----	4259	4722
670. Memorandum, dated Dec. 28, 1933, from B. D. Flynn, vice president and actuary, Travelers Insurance Co., to President Zacher, Travelers Insurance Co., concerning proposed new program of life rates and values-----	4260	4722
671. Memorandum, dated Feb. 15, 1934, from B. D. Flynn, vice president and actuary, Travelers Insurance Co., to President Zacher, Travelers Insurance Co., with further reference to proposed new program of life rates and values and referring to meetings of officials of three Hartford nonparticipating companies held at the offices of the Aetna Life Insurance Co.-----	4262	4723

Number and summary of exhibits	Introduced at page	Appears on page
672. Memorandum, dated Feb. 15, 1934, from B. D. Flynn, vice president and actuary, Travelers Insurance Co., to President Zacher, Travelers Insurance Co., with reference to proposed new program of life rates and values and recording further discussions between representatives of three Hartford companies-----	4262	4724
673. Memorandum, dated Mar. 6, 1934, of James F. Little, vice president and actuary, Prudential Insurance Co. of America, concerning future interest rates and discussing proposal of nonparticipating companies to raise rates on life policies and possibility of additional conferences with other companies to synchronize changes in rates-----	4275	4725
674. Memorandum, dated June 12, 1934, of Valentine Howell, associate actuary, Prudential Insurance Co. of America, concerning ordinary premium rates and suggesting schedule of rate increases determined following conferences with actuaries of Metropolitan and Provident Mutual Life Insurance Cos.-----	4275	4727
675. Memorandum, dated Mar. 17, 1934, of B. D. Flynn, vice president and actuary, Travelers Insurance Co., to President Zacher and Vice President Howard, Travelers Insurance Co., concerning conferences with Metropolitan, Prudential, and Provident Mutual Life Insurance Cos. representatives on proposed new program of life rates and values-----	4275	4728
676. Memorandum, dated Aug. 1, 1936, of H. Pierson Hammond, Travelers Insurance Co., referring to conferences between representatives of the Aetna, Connecticut General, and Travelers Insurance Cos. on subject of 1937 policy rate revisions-----	4277	4729
677. Table: Comparative gross aggregate premium costs, cash values, net aggregate premium costs, over 10-year period, under nonparticipating policies of Aetna Life, Connecticut General and Travelers Insurance Cos.-----	4278	4732
678. Appears in Hearings, Part VI, appendix, p. 2748-----	4279	
679. Table: Statement showing the volume of the ordinary business of Aetna Life, Connecticut General, and Travelers Insurance Cos.-----	4281	4732
680. Table: Life insurance; total in force, new business and terminations United States legal reserve life insurance companies, 1928-37-----	4282	4733
681. American Experience Table of Mortality-----	4283	4733
682. Chart: Whole life policy (\$1,000) age 35. Supported by statistical data on page 4734 in appendix-----	4286	4286-a
683. Chart: Terminations of life insurance, 1922-37. Supported by statistical data entitled terminations—ordinary life insurance—amounts, 1922-37; and terminations—industrial life insurance—amounts, 1922-37 on pp. 4735 and 4736 in appendix-----	4293	4293-a
684. Chart: Life insurance in force newly issued and terminated. Supported by statistical data on p. 4737 in appendix-----	4300	4300
685. Chart: Industrial life insurance in force newly issued and terminated, number of policies. Supported by statistical data on p. 4738 in appendix-----	4304	4305
686. Table: Industrial insurance—termination experience of 7 companies, 1924-28, 1929-33, 1934-33-----	4308	4739
687. Table: Net gains or losses from surrendered and lapsed policies—ordinary and industrial-----	4312	4740
688. Table: Equitable Life Insurance Co., Washington, D. C.—terminations, January through March 1939—industrial insurance-----	4317	4740
689. Tables: (1) Lapse rates for years 1925-28; (2) lapse rates for years 1929-38; (3) lapse trends for 20 "A" companies-----	4322	4741

Number and summary of exhibits	Introduced at page	Appears on page
690. Minutes of first meeting of the Association of Life Insurance Presidents of the United States (Dec. 21, 1906)-----	4346	4744
691. Table: Initiation fees, dues, and contributions of members of the Association of Life Insurance Presidents-----	4349	4746
692. Constitution of Association of Life Insurance Presidents-----	4349	4748
693. Table: Litigation fees and expenses, 1934 through 1938, incurred, Association of Life Insurance Presidents-----	4355	4750
694. Table: Total fees, compensation and expenses in connection with the legislation and appearances before departments of Government by States, 1934 through 1938, of the Association of Life Insurance Presidents-----	4357	4752
695. Letter dated July 12, 1937, from Vincent P. Whitsitt, manager and general counsel, Association of Life Insurance Presidents, to Leroy A. Lincoln, president, Metropolitan Life Insurance Co., marked "confidential" concerning "1937 legislative high points"-----	4360	4754
696. Form letter, dated July 5, 1935, from Vincent P. Whitsitt, manager and general counsel, Association of Life Insurance Presidents, concerning "1935 legislative high points"-----	4361	4755
697. Form letter, dated Apr. 8, 1937, from Vincent P. Whitsitt, manager and general counsel, Association of Life Insurance Presidents, to certain indicated member companies of Association of Life Insurance Presidents, re: California Senate bill 460, segregation of assets-----	4368	4756
698. Memorandum, dated June 13, 1935, of R. L. Hogg, assistant general counsel, Association of Life Insurance Presidents, with reference to Florida legislative activity, 1935-----	4377	4757
699. Letter, dated May 5, 1935, from Robert L. Hogg, assistant general counsel, Association of Life Insurance Presidents, to Frank P. Deering, president, Florida Association of Life Underwriters, regarding legislative activity in connection with proposed Florida legislation to increase premium taxes-----	4385	4761
700. Telegram (date illegible) from F. P. Deering, president, Florida Association of Life Underwriters, to R. L. Hogg, Association of Life Insurance Presidents, reporting agents immediately soliciting 10 letters each from policyholders for transmittal to members of Florida House of Representatives-----	4386	4762
701. Letter, dated May 8, 1935, from F. P. Deering, president, Florida Association of Life Underwriters, to Robert L. Hogg, assistant general counsel, Association of Life Insurance Presidents; letter dated June 10, 1935, from F. P. Deering to R. L. Hogg; letter dated June 17, 1935, initialed F. P. D. to R. L. Hogg; and letter dated July 1, 1935, of C. F. Creswell, statistician, Association of Life Insurance Presidents, to Frank P. Deering, all with reference to payment of certain expenses incurred by Association of Life Insurance Presidents in connection with the Florida Association of Life Underwriters' activity in soliciting letters from policyholders for transmittal to members of Florida House of Representatives-----	4387	4762
702. Bulletin, dated June 6, 1935, of Association of Life Insurance Presidents, reporting on legislative results in connection with the regular session of the Florida Legislature adjourned June 2, 1935-----	4390	4764
703. Letter, dated Feb. 25, 1938, from R. L. Cooney and others to Robert L. Hogg, special counsel, Association of Life Insurance Presidents, stating method of operation of agents' committee handling legislative matters in Georgia and acknowledging letter, dated Feb. 27, 1937, from Robert L. Hogg, special counsel, to Robert L. Cooney, inspector of agencies, New York Life Insurance Co., Atlanta, Ga-----	4400	4767

Number and summary of exhibits	Introduced at page	Appears on page
704. Letter, dated Mar. 22, 1933, from R. L. Cooney and S. M. Carson to Charles F. Creswell, statistician, Association of Life Insurance Presidents, reporting on legislative activities in connection with the adjournment of Georgia Legislature-----	4402	4768
705. Letter, dated Mar. 1, 1938, from R. L. Cooney, inspector of agencies, New York Life Insurance Co., to W. H. Pierson, vice president, New York Life Insurance Co., concerning legislative activities-----	4403	4770
706. Letter, dated Nov. 21, 1938, from R. L. Cooney, inspector of agencies, New York Life Insurance Co., to Charles F. Creswell, statistician, Association of Life Insurance Presidents, concerning legislative activities and desirability of determining nature of talk that goes on before a bill is introduced-----	4404	4771
707. Letter, dated Mar. 3, 1937, from R. L. Cooney, inspector of agencies, New York Life Insurance Co., to R. L. Hogg, assistant general counsel, Association of Life Insurance Presidents, concerning legislative activities in Georgia and stating Cooney is a "marked man"-----	4406	4772
708. Letter, dated Feb. 26, from R. L. Cooney, inspector of agencies, New York Life Insurance Co., to Atlanta NYLICS urging agents of New York Life Insurance Co. to see their Representatives or Senators and urging against increase of premium taxation in Georgia-----	4406	4772
709. Letter, dated July 5, 1934, from R. L. Cooney, inspector of agencies, New York Life Insurance Co., to W. H. Pierson, vice president, New York Life Insurance Co., concerning luncheon meeting with 20 policyholders at Rome, Ga-----	4407	4773
710. Letter, dated Feb. 12, 1937, from R. L. Cooney, inspector of agencies, New York Life Insurance Co., to Robert L. Hogg, assistant general counsel, Association of Life Insurance Presidents, referring to fact that "we have stirred up activities over all the State"-----	4410	4773
711. Letter, dated Mar. 5, 1934, from R. L. Cooney, to W. H. Pierson, second vice president, New York Life Insurance Co., with reference to the Lannie Thomson case-----	4411	4774
712. Letter, dated Feb. 8, 1933, from R. L. Cooney, inspector of agencies, New York Life Insurance Co., to Charles F. Creswell, statistician, Association of Life Insurance Presidents, discussing how senate bill No. 21 was killed, and enclosed telegram from First National Bank, Valdosta, Ga., to Hon. H. W. Nelson, senate chamber, Atlanta, Ga., dated Feb. 7, 1933. Also letter, dated Feb. 10, 1933, from Charles F. Creswell, statistician, Association of Life Insurance Presidents to Robert L. Cooney, acknowledging letter of Feb. 8, 1933-----	4414	4775
713. Letter, dated Dec. 1, 1934, signed Louis A. Irons, deputy insurance commissioner, to Robert L. Cooney, New York Life Insurance Co., concerning payment of occupation tax for chairman of insurance committee of the Georgia House of Representatives-----	4416	4776
714. Letter, dated Feb. 12, 1937, signed Robert L. Cooney, inspector of agencies, New York Life Insurance Co., to Robert L. Hogg, assistant general counsel, Association of Life Insurance Presidents, concerning certain Georgia legislation and letter from R. L. Cooney, to Robert L. Hogg, dated Mar. 4, 1937, advising that legislation had been killed after "salty interview"-----	4416	4776
715. Bulletin of Association of Life Insurance Presidents, dated Apr. 8, 1935, concerning legislative results in State of Georgia for session of legislature adjourned Mar. 23, 1935-----	4418	4777

Number and summary of exhibits	Introduced at page	Appears on page
716. Bulletin of Association of Life Insurance Presidents, dated Apr. 2, 1935, concerning legislative results in State of Georgia for session of legislature adjourned Mar. 25, 1937.	4418	4781
717. Bulletin of Association of Life Insurance Presidents, dated Feb. 19, 1938, concerning legislative results in State of Georgia for session of legislature adjourned Feb. 13, 1938.	4418	4783
718. Letter, dated June 10, 1935, from Charles F. Creswell, statistician, Association of Life Insurance Presidents, to William H. Kingsley, vice president, Penn Mutual Life Insurance Co., concerning savings bank life insurance legislation.	4421	4785
719. Telegram, dated Feb. 24, 1937, from B. E. Shepherd, Association of Life Insurance Presidents, to James C. Jones, of Jones, Hacker, Gladney and Grand, attorneys-at-law, of St. Louis, Mo., concerning development of opposition to savings bank life insurance legislation in Missouri.	4422	4785
720. Letter, dated Feb. 25, 1937, from James C. Jones, of Jones, Hacker, Gladney and Grand, attorneys-at-law, St. Louis, Mo., to Association of Life Insurance Presidents, and telegram, dated Feb. 26, 1937, from B. E. Shepherd, Association of Life Insurance Presidents, to James C. Jones; and letter, dated Feb. 25, 1937, from James C. Jones to Association of Life Insurance Presidents, all in regard to Missouri savings bank life insurance legislation.	4423	4786
721. Letter, dated Mar. 17, 1937, from James C. Jones, of Jones, Hacker, Gladney and Grand, attorneys-at-law, St. Louis, Mo., to the Association of Life Insurance Presidents, referring to discussion of savings banks life insurance legislation with 40 insurance agents and enclosed document prepared for use of agents in opposition to savings bank life insurance entitled "Arguments for Industrial Agents".	4425	4787
722. Pamphlet entitled "The Savings Bank in Life Insurance" by Floyd DeGroat, Boston.	4426	4790
723. Letter, dated Mar. 29, 1937, from Vincent P. Whitsitt, manager and general counsel, Association of Life Insurance Presidents, to Guy A. Smith, president, Wilkes-Barre Association of Life Insurance Presidents, referring to savings bank life insurance legislation in Pennsylvania and letter from Guy A. Smith to Vincent P. Whitsitt, dated May 3, 1937, indicating the character of legislative activity against such legislation.	4427	4801
724. Excerpt from Armstrong report entitled "Lobbying".	4428	4802
725. Letter, dated Mar. 22, 1935, from Clinton C. White, secretary, Puritan Life Insurance Co., of Rhode Island, to Association of Life Insurance Presidents, concerning savings bank life insurance legislation in Rhode Island.	4430	4804
726. Letter, dated Apr. 10, 1937, from Clinton C. White, secretary, Puritan Life Insurance Co. of Rhode Island, to the Association of Life Insurance Presidents, with further reference to savings bank life insurance legislation.	4431	4805
727. Letter, dated May 7, 1937, from Clinton C. White, secretary, Puritan Life Insurance Co. of Rhode Island, stating "I am particularly pleased that we were able to defeat the savings bank life insurance bill".	4431	4806
728. Report by M. Joseph Cummings, chief of Division of Banking and Insurance of the State of Rhode Island on savings bank life insurance as represented by the Massachusetts system.	4433	4806
729. Memorandum, dated Apr. 20, 1938, of C. F. Creswell, statistician, Association of Life Insurance Presidents, concerning Rhode Island savings bank life insurance.	4433	4810

Number and summary of exhibits	Introduced at page	Appears on page
730. Form letter, dated Feb. 28, 1935, from C. F. Creswell, statistician, Association of Life Insurance Presidents, requesting actuarial letters from companies in opposition to savings-bank life-insurance bill introduced in New Hampshire-----	4434	4810
731. Memorandum prepared by Association of Life Insurance Presidents, entitled "Reasons Why New Hampshire House Bill No. 125 to Permit Savings Banks to Engage in the Life Insurance Business Should Not Be Enacted"-----	4435	4811
732. Letter, dated Apr. 28, 1937, of A. H. Yost, vice president, Phoenix Mutual Life Insurance Co., to Vincent P. Whitsitt, manager, and general counsel, Association of Life Insurance Presidents, referring to savings bank life insurance legislation pending in Connecticut General Assembly and letter, dated May 19, 1935, from A. H. Yost to Vincent P. Whitsitt, indicating activity of life-insurance officials to defeat savings-bank life-insurance bill.-----	4437	4813
733. Form letter, dated Feb. 25, 1938, from committee on law and legislation of the Life Underwriters Association of the City of New York, Inc., to agents in New York State, entitled, "Your Future Is at Stake," and urging agents to protest savings-bank life-insurance measure-----	4447	4814
734. Bulletin entitled "Flash" prepared by committee on law and legislation of the Life Underwriters Association, urging further opposition to savings-bank life-insurance legislation and enclosed 16 suggestions for form letters or telegrams-----	4447	4815
735. Typical patent license agreements, cross-license agreements, and other contracts between and among the principal concerns engaged in the manufacture of glass-making machinery and of the various types of glassware-----	4449	(1)
736. Table: Massachusetts savings banks issuing life insurance listed in the order of their entrance into the system (and the general insurance guaranty fund), Oct. 31, 1938-----	4454	4816
737. Table: Growth of savings bank life insurance in Massachusetts 1908 to 1938-----	4455	4816
738. Table: Number and types of agencies for savings bank life insurance on June 13, 1939-----	4463	4817
739. Table: Savings bank life insurance (as of Aug. 31, 1938), showing number of persons insured for the several stated amounts-----	4466	4817
740. Table: Amount of new insurance written and insurance terminated in Massachusetts during the year 1938 (ordinary)-----	4467	4818
741. Table: Relative proportions of amounts of insurance terminated by lapse and surrender in Massachusetts savings banks and in Massachusetts insurance companies, 1911-38-----	4471	4819
742. Table: Mortality experience of Massachusetts savings bank life insurance compared with life insurance companies—ratios of actual to expected mortality losses for savings banks, all ordinary, and all industrial insurance, 1910 to 1938-----	4473	4819
743. Table: Net rate of income earned on investments by savings bank life insurance and by all insurance organizations, including savings bank life insurance, 1920 to 1938-----	4475	4820
744. Table: Percent total expenses are of premium income in savings bank life insurance, ordinary insurance, and industrial insurance 1920 to 1938-----	4476	4820
745. Table: Comparing 10-year costs of savings bank life insurance issues of 1929 for \$1,000 straight life insurance policy age 35, with similar policies of certain indicated companies-----	4482	4821
746. Table: Comparing 10-year costs of savings bank life insurance issues of 1929 for \$1,000 straight life insurance policy, age 35, with similar policies of certain indicated companies, based upon projection of 1938 dividends-----	4485	4822

¹ On file with the committee.

Number and summary of exhibits	Introduced at page	Appears on page
747. Table: Comparison of ratios of surplus to reserves of Massachusetts savings bank life insurance and the life insurance companies (capital included as surplus)-----	4488	4822
748. Table: Massachusetts savings bank life insurance compared with total amount of life insurance of all kinds in Massachusetts (1908-38, Dec. 31)-----	4491	4823
749. Table: 30 years' experience in Massachusetts savings bank life insurance (statement to Oct. 31, 1938) and growth of Massachusetts savings bank life insurance-----	4491	4823
750. Table: Containing analysis of savings bank life insurance policies issued by New York savings bank-----	4503	4825
751. Table: Premium income and consideration received, annuity contracts-----	4506	4825
752. Table: Personal annuities—10 largest United States companies—increase (+) or loss (—) in surplus—after appropriation for contingency or other special reserves (unassigned funds), for the years 1929 to 1938, inclusive-----	4508	4826
753. Table: Personal annuities—increase or loss in surplus—after appropriation for contingency or other special reserves—26 largest United States companies-----	4508	4827
754. Principal inter-company meetings re annuities-----	4514	4843
755. Letter, dated Apr. 22, 1933, from Arthur Hunter, vice president and chief actuary, New York Life Insurance Co., to E. E. Cammack, vice president and actuary, Aetna Life Insurance Co., concerning annuity rates and reporting on program of rate increases tentatively decided by 5 New York companies-----	4515	4830
756. Memorandum, dated May 19, 1933, signed B. D. Flynn, vice president and actuary, Travelers Insurance Co., to President Zacher and Vice President Howard, Travelers Insurance Co., recording tentative votes of actuaries of 22 leading life insurance companies attending meeting at New York Life Insurance Co. on the subject of life-annuity rates and policy values-----	4526	4831
757. Memorandum, dated June 13, 1933, prepared by Arthur Hunter, vice president and chief actuary, New York Life Insurance Co., regarding new annuity rates and indicating companies which had determined to adopt new rate schedule-----	4526	4833
758. Notice, dated June 14, 1933, to agents of New York Life Insurance Co., regarding new annuity rates signed Arthur Hunter, vice president and chief actuary, New York Life Insurance Co-----	4527	4834
759. Letter, dated Mar. 12, 1934, signed Arthur Hunter, vice president and chief actuary, New York Life Insurance Co., to John M. Laird, vice president, Connecticut General Life Insurance Co., inviting representatives of 14 life insurance companies to attend meeting for discussion of bases of annuities and other matters-----	4528	4834
760. Appears in Hearings, Part V, appendix p. 2301-----	4530	-----
761. Memorandum, dated Mar. 31, 1934, of E. C. Henderson, Travelers Insurance Co., on surrender values and referring to discussion of annuity rates and other matters at meeting held in Dr. Hunter's office, Mar. 23, 1934-----	4530	4835
762. Memorandum, dated Oct. 31, 1934, of B. D. Flynn, vice president and actuary, Travelers Insurance Co., to President Zacher, Vice President Howard, and Vice President Armstrong, Travelers Insurance Co., concerning meeting of actuaries of 26 representative life insurance companies at which agents' commissions on life annuities and annuity rates were discussed-----	4532	4827

SCHEDULE OF EXHIBITS

XIII

Number and summary of exhibits	Introduced at page	Appears on page
763. Letter, dated Dec. 12, 1934, of John M. Laird, vice president, Connecticut General Life Insurance Co., to Arthur Hunter, vice president, New York Life Insurance Co., discussing agents' commissions on life annuities-----	4533	4838
764. Letter, dated Dec. 31, 1934, from Arthur Hunter, vice president, New York Life Insurance Co., to John M. Laird, vice president, Connecticut General Life Insurance Co., stating he will get information on attitude of companies regarding commissions on single premium annuities-----	4533	4838
765. Letter, dated Dec. 15, 1934, from John R. Larus, vice president and actuary, Phoenix Mutual Life Insurance Co., John M. Laird, vice president, Connecticut General Life Insurance Co., requesting attitude of Connecticut General on subjects relating to annuity rates and agents' commissions. Also summary prepared from company responses to general inquiry on these subjects-----	4534	4839
766. Memorandum from files of Connecticut General Life Insurance Co., summarizing attitude of companies on 13 questions including annuity rate increases discussed at meeting at offices of Arthur Hunter, vice president and actuary, New York Life Insurance Co., Oct. 10, 1935-----	4535	4840
767. Letter, dated Oct. 17, 1934, from Arthur Hunter, vice president and actuary, New York Life Insurance Co., calling meeting of company actuaries and enclosing agenda of topics for discussions which includes annuity rates-----	4536	4843
768. Memorandum, dated Oct. 25, 1935, of John M. Laird, vice president, Connecticut General Life Insurance Co., summarizing discussions of company actuaries at meeting held at offices of Arthur Hunter, vice president and chief actuary, New York Life Insurance Co., Oct. 24, 1935-----	4538	4844
769. Memorandum, dated Nov. 21, 1935, of Arthur Hunter, vice president and chief actuary, New York Life Insurance Co., with regard to immediate annuity rates-----	4539	4847
770. Memorandum, dated Nov. 25, 1935, of Arthur Hunter, vice president and chief actuary, New York Life Insurance Co., with regard to immediate annuity rates-----	4539	4847
771. Letter, dated Dec. 2, 1935, from Arthur Hunter, vice president and chief actuary, New York Life Insurance Co., to J. D. Craig, actuary, Metropolitan Life Insurance Co., advising certain companies have adopted new annuity rate basis-----	4539	4847
772. Letter, dated June 9, 1936, from Arthur Hunter, vice president and chief actuary, New York Life Insurance Co., to J. F. Little, vice president and actuary, Prudential Insurance Co., reporting on subjects discussed at meeting of company actuaries-----	4541	4848
773. Memorandum, dated Apr. 13, 1934, from files of Metropolitan Life Insurance Co., discussing attitude of companies concerning new annuity rates as revealed at informal meeting held Apr. 12, 1934, in offices of Arthur Hunter-----	4542	4848
774. Letter, dated Mar. 4, 1938, from H. R. Bassford, chairman of subcommittee, appointed at intercompany conferences, and summary of replies received to questionnaire in regard to adoption of new annuity and settlement option rates-----	4549	4850
775. Memorandum, dated Apr. 22, 1938, of H. R. Bassford, actuary, Metropolitan Life Insurance Co., summarizing discussions of actuaries of 25 companies on subject of settlement options at meeting held Apr. 22, 1938-----	4550	4852
776. Form letter, dated June 3, 1938, marked "confidential" from Arthur Hunter, vice president, New York Life Insurance Co., advising names of companies which will adopt new annuity rates-----	4552	4855

Number and summary of exhibits	Introduced at page	Appears on page
777. Letter, dated Oct. 22, 1934, from E. E. Cammack, vice president and actuary, Aetna Life Insurance Co., to J. M. Laird, vice president, Connecticut General Life Insurance Co., concerning agent's commissions on single premium annuities and stating company expects to go along with majority-----	4566	4856
778. Memorandum, dated May 13, 1938, from E. E. Cammack, vice president and actuary, Aetna Life Insurance Co., entitled "Meeting of Travelers, Connecticut General, and Aetna at the Aetna Life Insurance Co., 10 a. m., Friday, May 13" and having reference to discussions on immediate annuities and optional settlements-----	4566	4856
779. Memorandum, dated Oct. 10, 1938, of John M. Laird, vice president, Connecticut General Life Insurance Co., referring to discussions on retirement annuities at meeting of actuaries representing 30 companies-----	4567	4857
780. Table: Exhibit of personal annuities (excluding group annuities) of 26 United States companies attending intercompany conference and of all United States companies-----	4567	4857
781. Letter, dated Nov. 6, 1935, from Arthur Hunter, vice president and actuary, New York Life Insurance Co., to J. F. Little, vice president and actuary, Prudential Insurance Co., referring to meeting of representatives of Metropolitan, Equitable, Mutual, and New York Life Insurance Cos.' representatives in regard to settlement options-----	4575	4858
782. Letter, dated Nov. 12, 1935, from vice president and actuary of Prudential Insurance Co., to Arthur Hunter, vice president of New York Life Insurance Co., discussing settlement options and stating company will be glad to go along with some reasonable rules-----	4575	4858
783. Memorandum from files of Connecticut General Life Insurance Co., entitled "Memorandum of meeting held at offices of Dr. Arthur Hunter, vice president and actuary of the New York Life Insurance Co. on Nov. 14, 1935" referring to discussions among company actuaries on subject of settlement options and indicating further meetings of company actuaries to be held-----	4575	4858
784. Letter, dated Apr. 30, 1937, from Louis H. Pink, superintendent of insurance for the State of New York, to Thomas I. Parkinson, president, Equitable Life Assurance Society of New York, regarding the appointment of a committee of life companies and departmental representatives to consider settlement options-----	4579	4860
785. Report of subcommittee appointed at intercompany conference of Feb. 16, 1937, entitled "Revision of practice on optional settlements," dated May 28, 1937-----	4580	4861
786. List of company representatives at intercompany meeting held on June 3, 1937, in Arthur Hunter's office-----	4581	4865
787. Summary of recommendations by subcommittee headed by R. D. Murphy, vice president and actuary, Equitable Life Assurance Society, concerning settlement options and proposed action indicated by various companies at the June 3 meeting, prepared by E. C. Henderson, actuary, Connecticut General Life Insurance Co., dated June 10, 1937-----	4583	4866
788. Memorandum from files of Equitable Life Assurance Society of New York, entitled "Recommendations for revised practice under new optional agreements on both new and outstanding business"-----	4583	4867

SCHEDULE OF EXHIBITS

XV

Number and summary of exhibits	Introduced at page	Appears on page
789. Letter, dated Aug. 6, 1937, signed Arthur Hunter, vice president and actuary, New York Life Insurance Co., to John M. Laird, vice president and secretary, Connecticut General; letter dated Aug. 11, 1937, from J. M. Laird to Arthur Hunter; and letter dated Aug. 12, 1937, from Arthur Hunter to John M. Laird, concerning failure of some companies to adopt recommendations for settlement options and desirability of further discussions on subject.....	4584	4868
790. Letter, dated Oct. 22, 1937, signed E. W. Marshall, vice president and actuary, Provident Mutual Life Insurance Co. of Philadelphia, to R. D. Murphy, vice president and actuary, Equitable Life Assurance Society, referring to intercompany conference on option settlements and enclosed questionnaire entitled "Questionnaire Regarding Revision of Practice Under New Optional Agreements on Both New and Outstanding Business".....	4589	4869
791. Letter, dated Nov. 9, 1937, signed E. W. Marshall, vice president and actuary, Provident Mutual Life Insurance Co., to R. D. Murphy, Equitable Life Assurance Society, referring to proposed intercompany meeting and indicating representatives should come to meeting authorized to state official attitude of their companies on settlement options.....	4596	4871
792. Form letter of E. W. Marshall, vice president and actuary, Provident Mutual Life Insurance Co., dated Nov. 19, 1937, and enclosed recommendations for revised practice under new optional-settlement agreements on both new and outstanding business as amended at intercompany conference on Nov. 15, 1937, together with schedule marked "Very confidential," indicating attitude of 27 companies toward questions raised at conference on Nov. 15, 1937.....	4596	4871
793. Memorandum, dated Nov. 16, 1937, from R. D. Murphy, vice president and actuary, Equitable Life Assurance Society of New York to W. G. Schelker concerning intercompany meeting and understanding of signatory companies regarding competition with "No" companies.....	4598	4872
794. Memorandum, dated May 25, 1938, from E. W. Marshall, vice president and actuary, Provident Mutual Life Insurance Co. of Philadelphia, to R. D. Murphy, vice president and actuary, Equitable Life Assurance Society, discussing attitude of various company groups concerning settlement option rules and making proposal directed toward bringing about an intercompany agreement on a uniform basis.....	4612	4873
795. Preliminary report, dated June 7, 1938, from E. W. Marshall, vice president and actuary, Provident Mutual Life Insurance Co. of Philadelphia, concerning company reaction to optional-settlement program indicating widespread desire for uniform basis by companies.....	4616	4875
796. Letter, dated June 23, 1938, from E. W. Marshall, vice president and actuary, Provident Mutual Life Insurance Co. of Philadelphia, to R. D. Murphy, vice president and actuary, Equitable Life Assurance Society and enclosed confidential summary of votes taken at "Little Entente" meeting regarding guaranteed basis of optional settlements.....	4616	4876
797. Letter, dated July 7, 1938, from E. W. Marshall, vice president and actuary, Provident Mutual Life Insurance Co. of Philadelphia, to R. D. Murphy, vice president and actuary, Equitable Life Assurance Society, an enclosed chart giving confidential plans of various companies regarding new optional basis.....	4618	4878

Number and summary of exhibits	Introduced at page	Appears on page
798. Letter, dated July 28, 1938, from E. W. Marshall, vice president and actuary, Provident Mutual Life Insurance Co. of Philadelphia, to R. D. Murphy, vice president and actuary, Equitable Life Assurance Society, setting forth certain changes in company attitude toward optional settlement program in direction of greater uniformity-----	4618	4880
799. Table: Intercompany meetings resettlement options-----	4619	4881
800. Memorandum from files of Aetna Life Insurance Co. setting forth attitude of companies attending intercompany meeting at offices of New York Life Insurance Co. for purpose of considering settlement options, annuity rates and other matters-----	4619	4882
801. Memorandum, dated Feb. 15, 1933, from Valentine Howell, second vice president and associate actuary, Prudential Insurance Co. of America, regarding surrender values-----	4621	4883
802. Memorandum, dated Apr. 18, 1933, of Valentine Howell, second vice president and associate actuary, Prudential Insurance Co. to Colonel D'Olier, Prudential Life Insurance Co. of America, referring to attitude of various company groups in reducing surrender values-----	4623	4884
803. Memorandum, dated Apr. 17, 1933, of Valentine Howell, second vice president and associate actuary, Prudential Insurance Co. of America, regarding surrender values of supplementing memorandum of Feb. 15, 1933 (exhibit 801, supra)-----	4623	4885
804. Memorandum, dated May 19, 1933, of Valentine Howell, second vice president and associate actuary, Prudential Insurance Co. of America, concerning annuity premiums and surrender charges and summarizing attitude of company representatives attending intercompany meeting toward proposed changes in surrender values-----	4624	4886
805. Memorandum from files of Prudential Life Insurance Co. of America, entitled "Proposed program re premium rates, reserve basis and surrender charges"-----	4625	4887
806. Letter, dated June 22, 1924, signed Arthur Hunter, vice president and actuary, New York Life Insurance Co., to James F. Little, vice president and actuary, Prudential Insurance Co. of America, and enclosed memorandum suggesting proposed table of cash surrender values-----	4626	4889
807. Memorandum from files of Mutual Life Insurance Co., entitled "Surrender and loan values" and discussing attitude of company toward various suggested changes-----	4628	4890
808. Memorandum, of W. A. Hutcheson, stamped May 9, 1934, concerning proposed changes regarding cash and loan values and indicating reasons for lowering surrender values and increasing surrender charges, from files of Mutual Life Insurance Co.-----	4633	4894
809. Bylaws of Medical Information Bureau-----	4635	4896
810. Regular and associate members of Medical Information Bureau-----	4635	4897
811. Underwriting rules recommended by committee on underwriting large risks (corrected as of Apr. 1, 1936)-----	4644	4901
812. Report of executive committee of underwriting large risks for year ending Mar. 31, 1939, signed R. D. Murphy, chairman-----	4644	4902
813. Letter on stationery of Metropolitan Life Insurance Co., signed J. D. Craig, chairman, committee underwriting large risks listing members of Recording Bureau, as of Aug. 18, 1932-----	4645	4903
814. Letter, dated Oct. 29, 1931, from Frank L. Jones, chairman and member of replacement committee, to Walter E. Webb, chairman, executive committee association of life agency officers and list of original signatory companies to replacement agreement-----	4651	4904

SCHEDULE OF EXHIBITS

211

Number and summary of exhibits	Introduced at page	Appears on page
815. Plan for discouraging the replacement of life insurance in one company by new insurance in another company, (replacement agreement)-----	4652	4906
816. Amendment to plan for discouraging the replacement of life insurance in one company by new insurance in another company-----	4653	4907
817. List of signatory companies signing replacement agreement with names of persons in charge of intercompany correspondence (July 6, 1938)-----	4654	4907
818. Letter, dated Oct. 6, 1931, from L. Seton Lindsay, vice president, New York Life Insurance Co., to Frank L. Jones, vice president, Equitable Life Assurance Society; letter dated Oct. 13, 1931, from Frank L. Jones to L. Seton Lindsay; and letter dated Oct. 15, 1931 from L. Seton Lindsay to Frank L. Jones, regarding attitude of New York Life Insurance Co. toward signing of replacement agreement-----	4655	4911
819. Memorandum entitled "Exceptions made by some of the signatory companies in the matter of replacement of life insurance"-----	4656	4913
820. Table: 6-year record of intercompany replacements-----	4657	4916
821. Table: Consolidated report of replacement figures for the 8 months' period ended Oct. 31, 1938-----	4658	4917
822. Letter, dated May 15, 1929, from Herbert M. Wollen, president, American Central Life Insurance Co., to Lawrence M. Chatels, president, North American Reinsurance Co., regarding conference of representatives of reinsurance companies mentioning possibility of more general meeting to establish code of behavior-----	4670	4918
823. Letter, dated June 3, 1929, from Herbert M. Wollen, president American Central Life Insurance Co. to Emmett C. May, president, Peoria Insurance Co. regarding meeting of representatives of reinsurance companies and listing sixteen subjects needing consideration-----	4673	4919
824. Memorandum containing recommendations "to promote the best interests of the business" of rates and underwriting committee appointed by reinsurance companies-----	4675	4921
825. Rules adopted by reinsurance conference-----	4676	4922
826. Table: 1937 lapse ratio compared with the relative sales rates during 1935 and 1936-----	4684	4926
827. Table: The 40 United States life insurance companies of which the life insurance sales research bureau computed 1937 lapse ratios-----	4684	4927
922. Table 1: Nonparticipating insurance company rates of Aetna Life Insurance Co., Connecticut General Life Insurance Co., Travelers Life Insurance Co.—1909-29-----		4927
Table 2: Percentage deviation of nonparticipating life insurance rates of Connecticut General and Travelers from Aetna Life rates before the adoption of uniform rates effective Apr. 1, 1933-----		4928
Table 3: Nonparticipating life insurance company rates of Aetna Life Insurance Co., Connecticut General Life Insurance Co. and Travelers Insurance Co. showing the rates (annual premium without disability and double indemnity) in force before and after the adoption of uniform rates effective Apr. 1, 1933—typical plans at typical ages-----		49
Unnumbered. Date of incorporation, admitted assets, insurance in force, capitalization, number of shareholders of record and other information regarding Travelers Insurance Co., Aetna Life Insurance Co. and Connecticut General Life Insurance Co.-----		4929
Unnumbered. Summary of statutory prerequisites for licensing of life insurance agents-----		4929

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

TUESDAY, JUNE 6, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:40 a. m., pursuant to adjournment on Friday, May 26, 1939, in the caucus room, Senate Office Building, Senator Joseph C. O'Mahoney presiding.

Present: Senators O'Mahoney (chairman), Borah, and King; Representatives Reece and Williams; Messrs. Henderson, Frank, Arnold, Lubin, and Brackett.

Present also: Senator Gerald P. Nye, of North Dakota; Senator Scott W. Lucas, of Illinois; Harry J. Daniels, Chief of the Insurance Section, Department of Commerce; Willis J. Ballinger, Federal Trade Commission; and Gerhard A. Gesell, special counsel, Securities and Exchange Commission.

The CHAIRMAN. The committee will please come to order.

The committee has assembled this morning to hear further testimony presented in the insurance study by the Securities and Exchange Commission. Chairman Frank, of the Commission, member of this committee, will make an opening statement.

INTERCOMPANY AGREEMENTS

MR. FRANK. I want to make this brief opening statement in order to acquaint the committee in a general way with the subject matter of the hearings which are about to commence. In President Roosevelt's message recommending that Congress initiate and carry out the program upon which this committee is now engaged, he urged that there should be a study of insurance companies.¹ He also spoke of the necessity of strengthening and enforcing antitrust laws, placed considerable emphasis upon price fixing, and urged that all forms of price fixing, without regard to their degree or to whether or not they fell within the traditional antitrust field, be examined.

Accordingly, the Securities and Exchange Commission is now prepared to present considerable evidence concerned with price fixing and other forms of anticompetitive arrangements affecting many departments of the life-insurance business. In doing so, I wish to make it clear that our approach is objective. We have not reached any conclusion as to the social or economic rightness or wrongness of those activities. That is the province of the committee, not the Securities and Exchange Commission. The activities and arrangements to be

¹ See "Exhibit No. 1," Hearings, Part I, appendix, p. 185 at p. 190.

described are, for the most part, of recent origin. Evidence will be presented as to whether or not they affect the price which the policyholder pays for his insurance.

The CHAIRMAN. I am very glad, Mr. Frank, that you have made that statement, because I think it is helpful to continue to lay emphasis upon the fact that this committee is merely trying to find out how things are working. We are not passing judgment upon any of the institutions or activities which are revealed before us.

Mr. GESELL is to conduct the examination?

Mr. FRANK. That is correct.

The CHAIRMAN. Mr. GESELL, are you ready to proceed?

Mr. GESELL. I am, Mr. Chairman.

THE GROUP ASSOCIATION

Mr. GESELL. The first intercompany arrangement to be considered will be the Group Association, an organization among principal companies issuing various form of group insurance. I would like to call as my first witness Mr. B. D. Flynn, of the Travelers Insurance Co.

The CHAIRMAN. Mr. Flynn, do you solemnly swear that the testimony you are about to give in these proceedings shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. FLYNN. I do.

TESTIMONY OF BENEDICT D. FLYNN, VICE PRESIDENT AND ACTUARY, TRAVELERS INSURANCE CO., HARTFORD, CONN.

Mr. GESELL. Will you state your full name, please, sir?

Mr. FLYNN. Benedict D. Flynn.

Mr. GESELL. Are you associated with the Travelers Life Insurance Co.?

Mr. FLYNN. Yes, sir.

Mr. GESELL. In what capacity?

Mr. FLYNN. Vice president and actuary.

Mr. GESELL. How long have you been with the company, Mr. Flynn?

Mr. FLYNN. Forty years, approximately.

Mr. GESELL. How long have you been actuary for the company?

Mr. FLYNN. Vice president and actuary since 1930.

Mr. GESELL. Are you familiar with the activities of Travelers Insurance Co. in the sale of group insurance—group life insurance?

Mr. FLYNN. Yes, sir.

Mr. GESELL. Will you tell us a little about group insurance, what kind of insurance is it, how is it sold, and so forth?

Mr. FLYNN. Group insurance is insurance issued to an employer to cover his employees for life insurance, accident, and sickness insurance, or annuities as pensions. At least 75 percent of the eligible employees must be covered.

The CHAIRMAN. How many?

Mr. FLYNN. Seventy-five percent of eligible employees; and because of the fact that a large percentage of eligibles come into the plan it is written without examination, medical examination; that is, there is no medical test. It is written under a plan which precludes individual selection; that is, the amount of insurance is graded by

classification of some kind under conditions pertaining to employment.

Mr. GESELL. You mean by that that employees within a certain salary or wage level will receive so much insurance; those in the next highest will receive, perhaps, a little additional amount.

Mr. FLYNN. That is it. That would be one way of classifying them.

The CHAIRMAN. How many different ways of classifying are there?

Mr. FLYNN. Well, you can classify by occupational class, by salary class, by years of service, and also they have modified the amount by sex.

The CHAIRMAN. I beg your pardon.

Mr. FLYNN. By sex; that is, the woman worker having a lower amount.

Mr. GESELL. Now, is group insurance rewritten every year?

Mr. FLYNN. No; the contracts are ordinarily 1-year, renewable-term contracts.

Mr. GESELL. They are renewed at the option of the employer every year, are they not?

Mr. FLYNN. At the option of the employer.

Mr. GESELL. Both the employer and the employee are covered by the policies in most cases, are they not?

Mr. FLYNN. The employees are always covered, but the employer, if it is a corporation—the officials of the corporation are eligible; but if an employer owns the establishment, he is not an employee technically and not covered.

Mr. GESELL. How many people would you say are covered by group life insurance in the United States at the present time? Am I not correct it has been estimated to be around 9,000,000?

Mr. FLYNN. I think that is correct; about 9,000,000.

Mr. GESELL. They are, by and large, the wage earning group, employees in industrial concerns?

Mr. FLYNN. Yes; by and large, the majority are the wage-earning class.

Mr. GESELL. Just roughly, about how much does each employer pay per \$1,000 of group life insurance under a group-life plan? Is it around 60 cents per thousand?

Mr. FLYNN. Sixty cents, as a rule.

Mr. GESELL. That is monthly or yearly?

Mr. FLYNN. Monthly.

Mr. GESELL. When was group life insurance first written, do you recall?

Mr. FLYNN. I should say about 1914.

Mr. GESELL. It has had a rather spectacular growth since that time, has it not?

Mr. FLYNN. Yes, it has.

Mr. GESELL. Both with respect to the number of companies writing it and as to the amount of insurance in force.

Mr. FLYNN. Particularly as to the amount of insurance in force.

Senator KING. Did you state the maximum amount of any policy?

Mr. FLYNN. Per individual?

Senator KING. Yes.

Mr. FLYNN. \$20,000 in very, very large cases. The average maximum per case is about five thousand.

Mr. GESELL. As background at this point I should like to offer for the record a schedule which has been prepared by the staff of the Securities and Exchange Commission from Spectator Insurance Year-book for the issues 1927 to 1938, entitled "Group Life Insurance—United States Companies." This schedule shows the number of companies reporting to Spectator writing group life insurance for each year from 1919 to 1937, the amount of group insurance written each year, and the amount of group insurance in force at the end of the year. I might say in 1919 it shows 28 companies writing group insurance, with the insurance in force at around \$1,100,000,000; that at the end of 1937 there were some 98 companies writing group insurance, and there was twelve billion nine hundred fifty-seven of that insurance in force.

The CHAIRMAN. Does this statement purport to be a summary of the principal group insurance activity in the United States?

Mr. GESELL. It is a summary of the amount of insurance in force and the number of companies writing it, prepared from a recognized statistical source.

The CHAIRMAN. The beginning date is 1919?

Mr. GESELL. Yes.

The CHAIRMAN. Do I understand that is substantially the year at which group insurance began to emerge as a significant activity?

Mr. GESELL. Yes; I think that is a fair statement. Mr. Flynn says it was first started around 1914, but there are really no available figures for those years.

The CHAIRMAN. The statement may be admitted.

(The statement referred to was marked "Exhibit No. 641" and is included in the appendix on p. 4687.)

Senator KING. That comprises all the insurance companies so far as you are advised?

Mr. FLYNN. I think so. I haven't seen it, but I should say if it came from that source it probably does.

Senator KING. As far as you know, this would be an accurate statement of the companies?

Mr. FLYNN. I would like to see it. I really haven't seen it. [Examining "Exhibit No. 641."] I think that is undoubtedly correct.

Mr. GESELL. One further question about group life insurance—what is the minimum size of the group covered?

Mr. FLYNN. The minimum number of individuals is 50.

Mr. GESELL. And it can run up to almost any amount above that, can it?

Mr. FLYNN. Yes. That is the minimum number of employees.

Mr. GESELL. Now, are you familiar with the fact that actuaries and officials representing the principal companies writing group insurance got together on an informal basis to discuss mutual problems sometime in the fall of 1917?

Mr. FLYNN. Yes.

Mr. GESELL. Will you tell us how it was that these individuals got together, what companies they represented, and what it was that brought them together the first time?

Mr. FLYNN. Prior to 1917, some group insurance had been written by a few of the companies. The insurance commissioners—that is, the

National Convention of Insurance Commissioners—decided it was about time to determine upon a definition of just what group insurance was. I am referring to group life insurance.

Senator KING. You mean the commissioners of the various States?

Mr. FLYNN. The commissioners of the various States. So they appointed a committee consisting of three actuaries of three insurance departments and three actuaries of three companies. I was not a member of the committee, and I can't exactly recall which companies were represented. That committee was to draft a definition of group life insurance. They did that in 1917, and that definition was enacted into law in New York State.

The CHAIRMAN. What was the method by which this meeting of State insurance commissioners was called?

Mr. FLYNN. I imagine it was in the regular convention that the matter came up. They have conventions periodically.

Mr. GESELL. That is, conventions of insurance commissioners?

Mr. FLYNN. Insurance commissioners, yes.

The CHAIRMAN. That is an informal association of the commissioners of insurance of the various States?

Mr. FLYNN. Yes, sir.

The CHAIRMAN. It has no legal life as such? I mean, it is not a public institution, is it?

Mr. FLYNN. I don't think so; I think it is an informal association.

Mr. GESELL. Am I correct in saying that after first getting together with the insurance commissioners the actuaries continued to meet without the insurance commissioners to consider problems of mutual interest?

Mr. FLYNN. Yes, sir.

Mr. GESELL. How often did they meet?

Mr. FLYNN. I would imagine they met about every 6 months.

Mr. GESELL. What companies were represented in those meetings, Mr. Flynn?

Mr. FLYNN. The companies which were writing group insurance at that time.

Mr. GESELL. Would you say all the companies or the principal companies?

Mr. FLYNN. The principal companies. In fact, I doubt if there were any companies writing group insurance other than five or six of the principal companies.

Senator KING. You mean at that time?

Mr. FLYNN. At that time.

Senator KING. And their actuaries or officers met once every 6 months to discuss problems?

Mr. FLYNN. Yes.

Senator KING. Did the actuaries of the various State insurance departments also participate?

Mr. FLYNN. I can't recall exactly, but I have been told that at various times a representative of the New York Insurance Department would sit in at the meeting.

Senator KING. Would the results of these actuarial meetings be submitted to the various State insurance departments?

Mr. FLYNN. Not formally; no.

Mr. GESELL. What kind of an organization did you have at that time? Did you keep minutes of what you talked about?

Mr. FLYNN. Yes; we kept minutes, or rather memoranda were sent around. It was an informal gathering of actuaries interested in the problems of group insurance.

Mr. GESELL. You had no official organization then of any sort?

Mr. FLYNN. No official organization.

Mr. GESELL. You had no official minutes?

Mr. FLYNN. No official minutes.

Mr. GESELL. Did you have any officers, or any bylaws, or any constitution, or anything of that kind?

Mr. FLYNN. Not at that time. We had a chairman and a secretary pro tempore.

Mr. GESELL. They would be elected for purposes of each meeting.

Mr. FLYNN. I think so.

Mr. GESELL. What was it that impelled the actuaries to get together at that time? What did they want to discuss? What were the problems in the industry?

Mr. FLYNN. The good practices and proper underwriting rules to direct this new line of insurance. It was something entirely new and rates and practices were really the subject of discussion all through those meetings.

Mr. GESELL. Would you say that there was any uniformity of rates at this time?

Mr. FLYNN. In the early years I don't think there was much of any uniformity.

Mr. GESELL. Was there any uniformity of underwriting practices at that time?

Mr. FLYNN. Yes; I think they were gradually crystallizing uniform practices.

Mr. GESELL. But when the actuaries first got together were those practices uniform or were they not?

Mr. FLYNN. They were not I think when they first got together.

Mr. GESELL. Were the companies making or losing money in their group departments?

Mr. FLYNN. I can't answer that. I don't know.

Mr. GESELL. Would you say that competition was severe at that time?

Mr. FLYNN. Perhaps you are thinking of the wrong period. I am thinking of the very early years, and I think competition was always severe.

Mr. GESELL. Different companies had different plans which they were writing which the other companies weren't, and each of them was going off on its own hook, so to speak?

Mr. FLYNN. To a large extent that is so.

Mr. GESELL. Then, as you tell us whether there were invited into these conferences some of the smaller companies which were writing group life insurance?

Mr. FLYNN. Any company that started to write group insurance which wanted to come in would be invited to these meetings.

Mr. GESELL. I read you a bit from a memorandum from yourself to Mr. Butler under date of September 30, 1924, in which you say:

There is the general feeling among all of the smaller companies, based upon that which has been said in the Actuarial Society and other meetings, that all are invited to cooperate to obtain policy forms, underwriting rules, etc., if they will be good.

What did you mean by that?

Mr. FLYNN. If they agreed to follow good practices.

Mr. GESELL. You mean not if they would agree to follow the practices which the larger companies had established?

Mr. FLYNN. I don't want to evade. I would say that the larger companies' main object was to establish sound practices and, having had perhaps more experience than the smaller companies, they would like to lead along that line, and that was what I meant in saying "if they will be good."

Mr. ARNOLD. Would it be fair to suggest that you didn't want obstreperous and dissenting opinions in these conferences?

Mr. FLYNN. I wouldn't think that was it. We didn't mind the dissenting opinions because there were many in those early days. I think we felt that they would need a little leading into good practices.

Mr. ARNOLD. Then would it be fair to suggest that you did not want anyone who was incapable of accepting leadership?

Mr. FLYNN. Well, I don't think that is it, exactly.

Mr. ARNOLD. You did want the leadership, didn't you?

Mr. FLYNN. I think we felt we knew perhaps a little more, having written more business and having had more experience. We had gone through a great many troubles and seen the number of improper offshoots of group insurance in its early days, and a new company starting up oftentimes had new ideas, and we thought we could really teach and lead them a little better.

Mr. ARNOLD. Then would it be fair to suggest that you didn't want people who wouldn't follow the advantages of your superior experience?

Mr. FLYNN. I think that is it.

Senator KING. The testimony you have given to date—does it deal almost exclusively with a period in and about 1917 or immediately thereafter?

Mr. FLYNN. I think that is dated, Senator, 1924, and it is after the 1917 period, after business had developed quite a bit.

Mr. GESELL. Mr. Flynn, will you look at that file and state whether it is not a fact that the circumstances which prompted that memorandum were the fact that a small company, the Western Union Co., which was not a member of the association but which was writing group insurance, had attempted to take a contract away from one of the members of the association, or one of the members of the group?

Mr. FLYNN. Yes; that was in relation to a transfer, or attempt to transfer, a case carried by another company.

Mr. GESELL. They had, in effect, succeeded in taking a piece of business away from one of the members of the group, had they not, and when you said they were invited to join if they would be good, did you not have in mind that they would cease to take business away from the members of the association?

Mr. FLYNN. Yes; that is correct.

May I make a statement which I think will clear the point here? Group life insurance is like regular life insurance in that there is a high first-year commission and a very low renewal commission. It is written on the supposition that, once written, it would be retained by the carrier in order that the lower expenses of continued handling

of the business would be enjoyed by the employer and the employee. To transfer a group case is just as much twisting as to transfer an ordinary life case.

Mr. GESELL. Let me see about that. Is not twisting the taking away of a policy by misrepresentation or omission to state some material fact?

Mr. FLYNN. That is correct.

Mr. GESELL. Is there anything in that file in front of you which indicates the Western Union Co. had misrepresented the situation or had omitted to state any material fact, or had acted in an ulterior manner? They had just taken the business.

Mr. FLYNN. If I remember correctly there was some influence of some kind used in the transfer of the business. I don't think there was any dissatisfaction with the service or the handling of the case. It was a reciprocity matter, I believe, if I remember that correctly.

Mr. GESELL. Isn't it a fact that your rules that you call "anti-twisting" rules are rules which prevent one company from taking business from another, regardless of whether or not they take it by misrepresentation or whether they take it fairly? They prevent the taking of business under any circumstances, do they not? That is a lot more than twisting.

Mr. FLYNN. It discourages it in that no commission is paid, which doesn't offer any incentive for the transfer of the business. Business is transferred occasionally, but the companies I think appreciate what I said first, that if there is a continual transferring of business a new first-year commission must be paid eventually, and the overhead will run somewhat similar to many of the casualty and fire lines. The overhead in group life insurance is very low, mainly because of low acquisition expense and low expense of handling.

It is very efficiently handled.

Mr. GESELL. Now we will come to a detailed discussion of the rules when we get to the formal association. I want to call your attention, at this time, to another memorandum written by yourself to Mr. Brosmith under date of April 21, 1933, in which you refer to some of these rules and state:

These rules have not dealt with the minor detailed features of the underwriting but with the important matters upon which the companies should be together in order to prevent ruinous competition.

Do you recall that memorandum?

Mr. FLYNN. Yes, sir; I recall that.

Mr. GESELL. Does that not help you to refresh your recollection that the purpose of some of these rules was not simply, purely the establishment of ethical standards of underwriting but was to prevent what you term "ruinous competition."

Mr. FLYNN. Yes; I think that is correct.

Mr. GESELL. What did you mean by "ruinous competition"?

Mr. FLYNN. Well, I think the major item of that kind would be this transfer danger or evil if it ever got under way, and for the reason that that would increase the cost of group insurance because the new first-year commission must be paid on each transfer and it would work out inefficiently.

The CHAIRMAN. What is the evil in the transfer of insurance from one company to another?

Mr. FLYNN. Senator, there isn't anything in it excepting the loss to the employer and the employee in higher cost.

The CHAIRMAN. But if an employer is willing to assume that higher cost, what is the objection to it?

Mr. FLYNN. Well, oftentimes there is an accumulated good experience which he established, a reputation with his company, the first carrier. He might have to build up his reputation, you might say, with the new carrier.

The CHAIRMAN. Now, your employer A has entered into a group insurance contract with insurance company X and then insurance company Y for one reason or another induces A to switch that group insurance to Y from X. To do that it would be normally assumed that Y would have to convince A that the transfer was to the benefit of A. Assuming those to be the facts, what evil would there be in the transfer?

Mr. FLYNN. Well, really if those were the facts, if there were nothing lost, there would really be nothing of evil in the transfer. The point which I am trying to make is that we as companies developing group insurance with the responsibility of trying to keep it on an efficient, economical basis, feel that if there is frequent transfer—there can be transfer, but if there are frequent transfers—there will be a demand for a new first-year commission from the agent effecting the transfer and generally the—

The CHAIRMAN (interposing). So your position is that it is desirable from the point of view of group insurance as a whole that transfers be discouraged?

Mr. FLYNN. Yes, sir.

The CHAIRMAN. You regard the transfers as ruinous competition?

Mr. FLYNN. That is it.

The CHAIRMAN. That altogether, without regard to whether or not the insured desires to make the transfer?

Mr. FLYNN. Yes.

The CHAIRMAN. Your feeling is that those who are handling group insurance ought to be in a position to raise obstacles to the free transfer by the insured of their policies? You nodded affirmatively?

Mr. FLYNN. Yes.

Mr. FRANK. May I ask, purely out of ignorance, would your rules be designed to prevent a transfer, even if in a particular case the cost to the employer was less?

Mr. FLYNN. Our rules are designed to have full information come out if there is a transfer desired, and for the new carrier, that is the new company, to be quite fair in handling it. If it is clearly to the advantage of the employer to transfer, that could be accomplished and the transfer would be made.

Mr. FRANK. What I am getting at is, might not the cost to the employer, regarding him as distinguished from the insurance company that lost the business, be to the advantage of the employer in that he might in a particular case get a lower cost?

Mr. FLYNN. That is right.

Mr. FRANK. Assuming that that were true, would your rules nevertheless be designed to discourage the transfer?

Mr. FLYNN. They would in that no commission would be paid to the agent effecting the transfer..

Mr. FRANK. In that event the employer would not suffer.

Mr. FLYNN. No.

Mr. FRANK. It would be the company that would suffer.

Mr. FLYNN. That is it and the agent.

Mr. FRANK. Ought not the employer be allowed to get insurance at the least cost to him on the basis of competition if that is possible?

Mr. FLYNN. That is correct, he should.

Mr. FRANK. Yet these rules—I don't know anything about them; I am just inquiring out of my own ignorance—are designed to prevent him from getting a lower cost even if he can do so.

Mr. FLYNN. They are not designed to prevent him. They are designed to have full information come out so he can make his own decision.

Senator KING. Do these transfers increase the cost of operation?

Mr. FLYNN. Yes, sir.

Senator KING. The cost of operation would necessarily cost the insured, the employee, a higher rate.

Mr. FLYNN. That is right.

Senator KING. You mentioned 60 cents a moment ago in a given case. Supposing there were frequent transfers from one company to another, thus increasing the cost, might the reaction be an increased cost to be paid by the employee for his insurance?

Mr. FLYNN. That would be the net effect.

Mr. FRANK. You mean the net effect after a long series of transactions.

Mr. FLYNN. Yes.

Mr. FRANK. Again, without indicating my own views in any respect as to the desirability or undesirability as to preventing competition, cannot the same argument be made in any industry that competition which will bring lower cost to the consumer may ultimately increase the cost to all consumers, and isn't that argument frequently made where persons want to engage in any competitive practice?

Mr. FLYNN. I am really not familiar with that matter.

Mr. GESELL. I think possibly if we proceed with this, the significance of some of these rules would be more apparent.

The CHAIRMAN. Perhaps you would prefer to conduct your examination without interruption by the committee.

Mr. GESELL. I would, sir.

The CHAIRMAN. We will try to observe that rule.

Mr. GESELL. Will you tell me, Mr. Flynn, when it was after your organization in 1917 that you first started to consider bringing about uniform rates?

Mr. FLYNN. I would say within a year or two.

Mr. GESELL. I show you a letter from Mr. Morris to Mr. Craig, of the Metropolitan, Mr. Morris being then actuary of the Travelers, and ask you if that letter does not indicate that in 1917, the very year that the organization got together, there was some discussion of the desirability of bringing about uniform rates?

Mr. FLYNN. Well, that apparently was written by Mr. Morris to Mr. Craig.

Mr. GESELL. You recognize his signature, do you not?

Mr. FLYNN. Yes, sir.

MR. GESELL. So that this letter would indicate that as early as November 26, 1917, there was some consideration being given to the desirability of bringing about uniform rates for group life insurance.

MR. FLYNN. It appears so.

MR. GESELL. I should like to read a paragraph of this letter [reading from "Exhibit No. 642"]:

I am working on a schedule, by occupation, of rate classification to see if it is not possible to bring about some uniformity among the companies in this matter. As I look at it, lack of uniformity is a decided draw-back to the business as a whole. For instance, on a certain class of risk where there is competition and the Travelers quotes a B rate, the Aetna a C, and the Metropolitan a D rate, the Travelers, all things being equal, gets the business. If, on the other hand, the Aetna quotes the A rates, the Metropolitan the B, and the Travelers the C, the chances are that the Aetna gets the business, so that the tendency due to lack of uniformity is toward the company quoting the lowest rate. If the companies were able to average up on other risks, the situation might not be as serious, but when the tendency is always the same the result is, of course, the writing of group business below the average quotations. In other words, it isn't necessarily one company but all companies that suffer through a lack of uniformity. Of course, I refer to companies granting nonparticipating or practically nonparticipating rates. Whether we can get all such companies to consider such a scale is another matter, but it is worth trying.

I would like to offer that letter for the record.

THE CHAIRMAN. Have you identified it?

MR. GESELL. The witness has identified it.

THE CHAIRMAN. The letter may be received.

(The letter referred to was marked "Exhibit No. 642" and is included in the appendix on p. 4687.)

MR. GESELL. Will you tell me when it was that the members of this informal association first agreed upon a uniform rate base?

MR. FLYNN. I can't tell from memory.

MR. GESELL. May I call your attention to another memorandum written by Mr. Morris from the files of your company to the president and to Vice President Way.¹ What is the date of that memorandum?

MR. FLYNN. April 12, 1919.

MR. GESELL. Mr. Morris is dead, is he not?

MR. FLYNN. Yes; he is.

MR. GESELL. Will you examine that memorandum? Does that refresh your recollection?

MR. FLYNN. Yes, sir.

MR. GESELL. When was it the uniform rates were agreed upon?

MR. FLYNN. 1919.

MR. GESELL. Do you recall what companies agreed to them at that time?

MR. FLYNN. Aetna, Travelers, Connecticut General, I think—

MR. GESELL (interposing). Metropolitan and Prudential?

MR. FLYNN. They agreed upon a slightly higher rate, approximately 5 percent higher.

MR. GESELL. That was to take care of the difference, was it not, between the three Hartford companies, which were writing on a non-participating basis, and the two New York companies, writing on a participating basis?

MR. FLYNN. That is right.

¹ Subsequently introduced as "Exhibit No. 643," *infra*, p. 4165.

Mr. GESELL. The net result of the rates agreed upon was to eliminate competition entirely so far as rates were concerned among those principal companies, was it not?

Let me read a paragraph of this letter [reading from "Exhibit No. 643"]:

It would seem, therefore, that the action which has been sought by the Hartford companies involving an understanding as to rates and maximum commissions is now possible and that competition on the basis of rates and underwriting, as well as commissions, will in the future be avoided by an agreement of the three Hartford companies, the Metropolitan and the Prudential.

That is pretty specific, is it not?

Mr. FLYNN. I agree upon agreement as to rates, but not as to the purpose of it.

Mr. GESELL. Well, regardless of the purpose of it, the result was to eliminate competition so far as rates and commissions were concerned, was it not?

Mr. FLYNN. Yes; ruinous competition, really.

Mr. ARNOLD. This eliminates all competition, doesn't it?

Mr. FLYNN. I imagine at that time there were other companies writing group insurance.

Mr. ARNOLD. But you three companies, in your anxiety to eliminate ruinous competition, made an agreement which eliminated all competition.

Mr. FLYNN. Competition of those companies, but if there were companies outside they would have different rates, perhaps.

Mr. GESELL. This agreement involves the Travelers, the Aetna, the Connecticut General, the Metropolitan, and the Prudential, does it not? And does not the memorandum also state that the Equitable is not to be considered from a competitive point of view, because their rates are higher than the rates of those other five companies?

Mr. FLYNN. Yes; it says that.

Mr. GESELL. Then we have the six largest companies writing group life insurance coming to an understanding with respect to both rates and commissions, which eliminates competition; is that not correct?

Mr. FLYNN. As to eliminating competition, I can't quite agree with that.

Mr. GESELL. It eliminates it from the point of view of rates, from the point of view of underwriting, and from the point of view of commissions to agents.

Mr. FLYNN. Among the six companies.

Mr. GESELL. At this time, 1919, what other company was in a position to compete with these six large companies?

Mr. FLYNN. I can't recall offhand, but Canadian companies, if I remember correctly, were at that time writing business.

Mr. GESELL. You mean there might be a little competition up in Ottawa, or up near Hudson Bay?

Mr. FLYNN. No; they were doing business in the United States—I believe the Sun Life and one or two other companies.

The CHAIRMAN. So far as these particular companies are concerned, you did eliminate competition?

Mr. FLYNN. So far as rates and commissions were concerned.

Mr. GESELL. Rates and commissions and underwriting.

Mr. FLYNN. And the underwriting rules also.

The CHAIRMAN. And in expressing the fact that an agreement had been reached among six companies to eliminate competition the memorandum stated "The Equitable's rates being so much higher, they have not caused controversy." Would it be a proper inference that some of the other companies which were not in the agreement were also charging higher rates, and therefore were not bothering you from a competitive standpoint?

Mr. FLYNN. I can't recall, Senator. I doubt if that was so; but I should remark here, I think, to clarify this, that the Metropolitan, Prudential, and Equitable rates were participating rates.

The CHAIRMAN. In order that the record may be clear, let me ask you to define briefly the difference between participating and nonparticipating companies.

Mr. FLYNN. Participating contracts provide for the participation in profits under the contract of the policyholder; nonparticipating contracts are guaranteed maximum rates without a participation clause. In later years it developed that nonparticipating companies gave what we call "experience credits," and are doing that today.

Mr. GESELL. Now, at this time, in simple language, if you have a nonparticipating group life policy the policyholder doesn't get anything back. If he has a participating policy he may get something back. There is a difference there, isn't there?

Mr. FLYNN. That isn't true today.

Mr. GESELL. I am talking as of April 1919, when this memorandum was written.

Let me read this memorandum to refresh you on that [reading from "Exhibit No. 643"]:

The rates for standard groups suggested by the subcommittee appointed at an earlier meeting were considered acceptable as the minimum for the nonparticipating companies. The Metropolitan and the Prudential announced that they would use these rates increased approximately 5 percent for dividends.

In other words, the Metropolitan and Prudential, which had participating rates, raised their rates 5 percent for the dividend of 5 percent which they would eventually give back to the policyholder so that the rates were uniform.

Mr. FLYNN. The dividend would not necessarily be 5 percent. It simply gave a little more margin and leeway so that they could offer participation.

Mr. GESELL. Your effort here was to even out any differences which might exist, because one set of companies were writing nonparticipating business and the other set of companies were writing participating business. Isn't that so?

Mr. FLYNN. I wouldn't say it evened it out, because the dividends might run considerably more or considerably less than 5 percent. It was simply to give a working margin more than the nonparticipating rate.

Mr. GESELL. I should like to offer the memorandum which we have just been discussing for the record.

The CHAIRMAN. The memorandum may be received.

(The memorandum referred to was marked "Exhibit No. 643" and is included in the appendix on p. 4638.)

Mr. ARNOLD. What consideration was given to the consideration of antitrust laws at the time this agreement was made?

Mr. FLYNN. My answer must be more or less of an estimate. I don't think that much of any consideration was given to it at that time. I think it was in the minds of certain officials of certain companies, but I don't think it had been discussed a great deal.

Mr. GESELL. Mr. Flynn, this memorandum which has just gone into the record is dated April 12, 1919. I wish to read you a memorandum dated May 9, 1922, which you wrote to Mr. Brosmith, vice president and general counsel of your company [reading from "Exhibit No 644"¹]:

The following question has been raised at various times: Are the companies writing group insurance violating any antitrust law or in any way acting in an illegal manner by permitting their representatives to gather periodically in order to pool their knowledge as a basis for a unanimous recommendation of a necessary underwriting rule, or by pooling their experience as a basis for rates?

The recommendation of the informal committee of representatives can be adopted or rejected by each company, but as a general rule no recommendation is adopted by the committee unless the vote is unanimous. There is nothing binding upon any company to follow the underwriting rule, the recommended commission scales, or the rates which are recommended, but each company appreciates the advantages of cooperation to such an extent that it follows its own rules, which are generally based upon the recommendations of the committee.

Will you kindly let me have your opinion as to the legality of this procedure?

You recognize that memorandum as yours, do you not?

Mr. FLYNN. I do.

Mr. GESELL. Does that refresh your recollection as to your worries about antitrust legislation at this time?

Mr. FLYNN. At this time the question had been raised by some company officials. In answering Mr. Arnold's question, the time was back in 1919. In '22 this question was much more alive.

Mr. GESELL. Will you tell me what brought up this question and what prompted the writing of this memorandum that we have just read?

Mr. FLYNN. One company questioned the propriety or the legality of companies getting together.

Mr. GESELL. What company was that?

Mr. FLYNN. Metropolitan Life.

Mr. GESELL. All right; will you tell us about what happened?

Mr. FLYNN. I believe at that time there was some thought of a more formal organization, and the Metropolitan was fearful that it might not jibe with certain antitrust laws.

Mr. GESELL. That was in 1922, was it not?

Mr. FLYNN. That was in 1922.

Mr. GESELL. Your formal organization wasn't made until 1926, was it?

Mr. FLYNN. No.

Mr. GESELL. Do I understand that away back in 1922 you were considering getting together on a more formal basis?

Mr. FLYNN. I think there was talk of it. I can't be sure.

Mr. GESELL. What was done to dissolve the worries of the Metropolitan about this matter?

Mr. FLYNN. Mr. Brosmith made a reply to my memorandum. Mr. Brosmith was recognized, I think, as a very fine lawyer, par-

¹ Subsequently introduced, see *infra*, p. 4168.

ticularly in insurance law. He had had the experience of other organizations in other lines of insurance. I think that had a large effect upon the decision of the Metropolitan.

Mr. ARNOLD. Did he draw up this formal statement of your policy which was read as part of that letter?

Mr. GESELL. The second part of your letter.

Mr. FLYNN. Do you refer, Mr. Arnold, to May 9, 1922?

Mr. ARNOLD. Yes; May 9, 1922.

Mr. FLYNN. This does not refer really to a formal understanding. In this second paragraph I am referring to the method of handling these informal meetings, and I say:

The recommendation of the informal committee of representatives can be adopted or rejected * * *.

That was not a written rule. That was our practice.

Mr. ARNOLD. It occurs to me from reading this that it is somewhat cagily drawn for the purpose of getting a complete understanding that competition will be eliminated and also for the purpose of making it appear that the law is not being violated. For example, you start out by saying that no recommendation is adopted by the committee unless the vote is unanimous. Then you say there is nothing binding on the company to follow these rules, and then you say, "Well, we are going to follow them anyhow." It seems to point both ways, and it seems to have a certain similarity to many other attempts to stay within the antitrust laws and get all the advantages of combination.

Is that an unfair characterization of that memorandum?

Mr. FLYNN. I wouldn't say it was unfair except in the animus. Our effort wasn't to stay within the law and accomplish things, but to attempt to get together informally for the good of the business. We had, perhaps, in mind the fact that if we did one thing or another thing it might be questioned by certain of the informal members. This was drawn to Mr. Brosmith's attention by me, stating it in a rather careful way in order to show, really, the animus of the members in working things out.

Mr. ARNOLD. The animus of the members was to get together, but at the same time not to appear to get together. Is that right?

Mr. FLYNN. I think that isn't quite right.

Mr. ARNOLD. This certainly was drawn with the idea that there was a real danger of violating the antitrust laws, and it was drawn for the purpose of obtaining the benefits of combination for your company and at the same time not appearing to violate the law.

Mr. FLYNN. I think that is right.

Mr. GESELL. Mr. Flynn, will you look at the second page of that document and tell me whether or not that is not the reply which Mr. Brosmith wrote to you?

Mr. FLYNN. Yes; that is the reply.

Mr. GESELL. May I also show you another memorandum to Mr. Brosmith, under date of March 28, 1925, 3 years later, and ask you if you do not recognize that.

Mr. HENDERSON. Mr. Gesell, did you introduce into the record Mr. Flynn's memorandum?

Mr. GESELL. I neglected to, Mr. Henderson. I wish to offer for the record at this time Mr. Flynn's memorandum to Mr. Brosmith, which has been identified, and Mr. Brosmith's reply.

The CHAIRMAN. The memorandum may be received, together with the reply.

(The documents referred to were marked "Exhibit No. 644" and are included in the appendix on p. 4689.)

Mr. GESELL. That memorandum which you have in your hand would indicate that it was not until 1925 that the Metropolitan raised the objection with respect to the legality of this procedure. Is that not correct?

Mr. FLYNN. This would lead you to think so, but I think that opinion I got from Mr. Brosmith was because of discussions at that time.

Mr. GESELL. In other words, in 1922 the Metropolitan Life Insurance Co. was worried about this matter; and in 1925, 3 years later, they are still worried about it.

Mr. FLYNN. They are still discussing the matter.

Mr. GESELL. May I have the memorandum, please, a moment? Mr. Brosmith is dead, is he not?

Mr. FLYNN. Yes; he is.

Mr. GESELL. You say to Mr. Brosmith as follows [reading from "Exhibit No. 645"¹]:

Mr. J. D. Craig, of the Metropolitan, told me the other day that President Fiske, at a recent conference, told Kavanagh and Craig—

Those are actuaries, are they not, of the Metropolitan?

Mr. FLYNN. Craig is. Kavanagh is the head of the sales organization.

Mr. GESELL (reading further):

that he was still firmly of the opinion that representatives of the Metropolitan should not convene with other companies writing group insurance with the idea of adopting certain recommendations. Mr. Fiske—

Mr. Fiske was the president of the Metropolitan?

Mr. FLYNN. Yes.

Mr. GESELL (reading further):

Mr. Fiske had recently told the Metropolitan they could attend such conferences, but he says now he thought they were group accident and sickness conferences, not group life.

I asked Mr. Crang if this was simply an excuse for the Metropolitan to break over the traces, and he said "No"; that Mr. Fiske was sincere in his opinion that by getting together with other company representatives, even in an informal way, the Metropolitan was violating certain laws—and that Mr. Fiske based this opinion mainly upon the advice of Mr. Lincoln.

Mr. Lincoln is a lawyer, is he not?

Mr. FLYNN. Yes.

Mr. GESELL. Now president of the company, is he not?

Mr. FLYNN. Yes.

Mr. GESELL (reading further from "Exhibit No. 645"):

Craig said that Mr. Lincoln thinks that the informal get-together of the group companies is in violation of certain statutes. I tried to find out what statutes he referred to. Craig did not know, but did say that a year or so ago Lincoln drew to his attention a bill proposed in Arkansas, section 2, article 151, which prohibited such getting together of companies engaged in life-insurance business. Jim was not sure that such a bill had passed.

¹ Subsequently introduced, see *infra*, p. 4170.

I suggested to Mr. Craig that you talk with Mr. Lincoln about the matter, and he thought it would be advisable, as Mr. Fiske would not change his mind until Mr. Lincoln changed his. I have spoken to Mr. Butler—

He was the president of your company, was he not?

Mr. FLYNN. Yes.

Mr. GESELL (reading further):

and he wanted me to suggest to you that you take the matter up with Mr. Lincoln to see what he had in mind.

Although the Metropolitan are supposed to conform to all of the rules, even if they do not attend the conferences, it would be a much better working plan to have them on hand at the meetings; and it would also be much better to clear up the question of legality of our meetings, as some of the other companies may also become frightened if they feel that the Metropolitan really have some legal grounds upon which to stand.

Do you recognize attached to that memorandum the reply which Mr. Brosmith gave you? Do you recognize that, Mr. Flynn?

Mr. FLYNN. It is not initiated, but I have seen it. I recognize it.

Mr. GESELL. I would like to read that to the committee, if I may. This is a memorandum dated March 30, 1925, from vice president and general counsel to Secretary Flynn—that is yourself, is it not?

Mr. FLYNN. Yes.

Mr. GESELL (reading from "Exhibit No. 645"):

Re antitrust laws, and Haley Fiske's position re Metropolitan.

In many of the States the laws which prohibit trusts and combinations in restraint of trade have been held to apply to insurance companies. In some of these States the words "insurance" or "insurance premiums" or "insurance-premium rates" are specifically mentioned. In other States the language of these laws is not broad enough to affect the business of insurance. Again, in other States there are no laws against trusts or combinations in restraint of trade and the common-law rules prevail.

Commencing back about 1910 or 1911, the legal committees of the several casualty bureaus made studies of all of the antitrust laws and of decisions in all of the States bearing thereupon and prepared a schedule for the use of the casualty organizations, indicating in which States mandatory rates might be used and in which States only advisory rates—

Do you have that distinction between advisory and mandatory rates in your organization?

Mr. FLYNN. No.

Mr. GESELL (reading further):

also, indicating the pains and penalties for violations of the statutes where they applied, and the common-law penalty was simply that of an injunction prohibiting the combination without any other penalty or damage.

All of the casualty organizations are operating under the opinions given by our legal committees, and I venture to say that the fire-insurance companies are operating under opinions of like tenor given by the counsel to their organizations.

We have never had any trouble concerning rates or agreements or combinations in any State of the Union except Kansas, where, some years ago, an action was brought against a number of the casualty companies and thereafter dismissed. The fire companies have had trouble in some States which has been overcome in part by laws intended to regulate rates.

To the extent that these laws apply to insurance companies, it would seem that they apply equally well to life insurance and accident insurance and to the organizations of companies which care for the interests of life- and accident-insurance companies, so that a company official who is fearful of the results should avoid membership on the part of his company or of its officers in the life presidents, American Life Convention, actuarial societies, and kindred organizations, which all have more or less to do with the establishment of the right premium rates for insurance and the maintenance of right practices.

With regard to employers' liability and compensation insurance, the question of a violation of any of these laws is practically a dead letter in all of the States in which other laws require that the rates charged for such insurances shall be rates which shall have been approved as to adequacy and reasonableness by the insurance supervising official or an industrial board or commission. This is true as to certain States with regard to fire insurance as well.

You should note this next paragraph, Mr. Flynn, because I want to ask you about it:

To sum up, in many States there is no real risk at all. In some States there is a technical risk, but this is no greater than all of the companies are taking every day in the year with regard to some requirement or other.

We expect to have the life counsel meet in Hartford the 13th and 14th of May, and I shall probably have a chance to discuss this question with Lincoln during the sessions.

I wish to offer these memoranda for the record.

The CHAIRMAN. They may be received.

(The memoranda referred to were marked "Exhibit No. 645" and are included in the appendix on p. 4690.)

Mr. GESELL. The result of Mr. Brosmith's legal analysis of the complicated question was that if you continued, you possibly were technically violating some State antitrust laws, was it not?

Mr. FLYNN. Yes.

Mr. GESELL. What was done about Metropolitan's objection? Did they continue in the organization?

Mr. FLYNN. I think they did.

Mr. GESELL. Was the nature of your organization changed in any way, or did you not continue just the same way after this legal opinion?

Mr. FLYNN. If I remember rightly, the Metropolitan gathered with the other company representatives after that, provided no matters bearing upon rates or rate making were handled.

Mr. GESELL. The rest of your companies continued to consider rates and handle rate matters?

Mr. FLYNN. Really outside the organization; it was sort of an actuarial gathering.

Mr. GESELL. You mean that you moved your rate-making activities from your informal organization to another group?

Mr. FLYNN. Yes.

Mr. GESELL. I see. In view of these references in the memoranda to State antitrust laws, if the committee please, I think it might be well for me to offer for the record as background only the statutes of eight States, which appear to contain specific prohibitions of one type or another against life-insurance companies combining as to rates or entering into one form or another of anticompetitive agreement.

The CHAIRMAN. It is not your desire to have those statutes printed in the record, is it?

Mr. GESELL. I just would like to save the committee the rather arduous job of reading through and pulling out those statutes. I can summarize them for you.

The CHAIRMAN. I think the summarization of the statutes would be all that is necessary.

Mr. GESELL. The ones I refer to are Arizona, Georgia, Kansas, Nebraska, Oregon, South Carolina, Texas, and Washington. I might

make brief reference to one or two of these States. The Arizona statute, for example, defines a trust as—

a combination of capital, skill, or acts, by two or more persons * * to control the rates of insurance.¹

In Nebraska the definition of a trust includes—

a combination of capital, skill, or acts by two or more persons to prevent competition in insurance, either life, fire, accident, or any other kind.²

The Georgia statute states:

No insurance company authorized to do business in this State, or the agent thereof, shall make, maintain, or enter into any contract, agreement, pool, or other arrangement with any other insurance company or companies, licensed to do business in this State, or the agent or agents thereof, for the purpose of, or that may have the tendency or effect of, preventing or lessening competition in the business of insurance transacted in this State.³

I might say the statutes of Oregon and Washington are patterned after this Georgia statute and are quite similar.

The CHAIRMAN. All of these statutes have specific prohibitions of certain types of combinations and agreements with respect to the fixing of insurance rates?

Mr. GESELL. That is correct, and I have not included in this discussion those statutes where it is clear that they do apply only to casualty or fire companies.

The CHAIRMAN. Nor have you included those States which have antitrust acts without specific allusion to any particular type of business.

Mr. GESELL. That is correct. There are, of course, as the chairman knows, many such statutes.

Rather than reading the citations I will hand them to the reporter to copy the citations for the record.

The CHAIRMAN. Very good.

(The citations referred to were marked "Exhibit No. 646" and are included in the appendix on p. 4692.)

Senator KING. In those States to which reference has been made by counsel, was there any requirement that before insurance was written in those States the rates must be filed and a license obtained from the insurance commissioner?

Mr. FLYNN. As regards life insurance?

Senator KING. Yes.

Mr. FLYNN. I really don't know.

Senator KING. Did your company write insurance in any State without submitting the rates or obtaining a license from the insurance commissioner of that State?

Mr. FLYNN. We always obtained the license from the insurance commissioner, but as a rule there is no law requiring the filing of manual life rates.

Senator KING. What representations are required in the States to which you have referred by the State law or by the insurance commissioner before the license is obtained? In other words, what are the prerequisites which must be satisfied by the applicant in order to obtain a license?

¹ See "Exhibit No. 646," appendix, p. 4692.

² Ibid, at p. 4695.

³ Ibid, at p. 4692.

Mr. FLYNN. Ordinarily a deposit, I mean a certain corporate standing, not necessarily a deposit of security.

Mr. GESELL. I would be glad to prepare a memorandum on that for you, Senator, for the record.¹

Senator KING. I would be glad to get that.

My recollection is, and I had that in mind when I propounded the question, that in New York you had a statute which very carefully outlines the program, the rates, and the steps to be taken in order to do business in that State.

Mr. FLYNN. That is correct.

Senator KING. And reports must be submitted of the financial standing of the various companies, the number of policies which they have written, and the obligations which they have assumed, and the reserves, and so forth, so you operate in New York under the direction of the statute, substantially. Is that true of other States?

Mr. FLYNN. That is true of all States. We must file annual statement forms and any other schedule or form they want annually.

Senator KING. Do those forms require a statement as to your assets and liabilities?

Mr. FLYNN. Yes, sir.

Senator KING. The policies which you have written?

Mr. FLYNN. Yes, sir.

Senator KING. And the obligations which you have assumed under those policies?

Mr. FLYNN. Yes, sir.

Mr. GESELL. Now, Mr. Flynn, we made passing reference some while ago to the fact that the companies agreed upon a uniform rate of life insurance in 1919. That was the so-called T rate, was it not?

Mr. FLYNN. I can't say whether at that time the T rate was adopted, or not.

Mr. GESELL. Will this refresh your memory?

Mr. FLYNN. That is correct.

Mr. GESELL. That T rate in effect was agreed to by all of the companies that belonged to this informal conference at this time, was it not?

Mr. FLYNN. Yes, sir.

Mr. GESELL. And those were the principal companies writing group life insurance?

Mr. FLYNN. Yes, sir.

Mr. GESELL. And that rate—here you want to watch me, because I am getting into actuarial language—was a rate based upon the American Men's Ultimate Table, with provision for loading of \$1.70 plus 5 percent of gross for commissions and an additional 1½ percent of gross for taxes. Is that not correct?

Mr. FLYNN. You have really got me; I think that is correct.

Mr. GESELL. That makes me feel better, Mr. Flynn.

That T rate fixed the price at which group insurance could be sold by all of those companies which were members of your conference?

Mr. FLYNN. I would like to check as to whether or not that participating rate of the Metropolitan and Prudential was still in existence, which was approximately 5 percent more than the T rate.

¹ Mr. Gesell subsequently submitted a memorandum entitled "Summary of Statutory Prerequisites for Licensing of Life Insurance Agents" which appears in the appendix on p. 4929.

Mr. GESELL. We can do that at the noon hour, and if you will let us know in the afternoon session it will be fine.

At this time did you also enter into various underwriting agreements of one sort or another which would control the underwriting practices of the companies?

Mr. FLYNN. Yes. The rules of the informal association governed the major underwriting practices.

Mr. GESELL. May I summarize them briefly?

In addition to the rate agreement on the rate which we considered, you had agreements concerning the commission scale, did you not?

Mr. FLYNN. Yes, sir.

Mr. GESELL. You also had certain agreements affecting various hazardous industries, so-called?

Mr. FLYNN. Extra premiums; yes.

Mr. GESELL. Those were additional rates that would be charged in industries where the mortality experience was high because of the nature of the occupation of the employees?

Mr. FLYNN. That's it.

Mr. GESELL. You also had some agreements with respect to the maximum amount of insurance and the size of the group that would be written, did you not?

Mr. FLYNN. Yes.

Mr. GESELL. You also had provisions with respect to the transfer of business, which we have discussed?

Mr. FLYNN. Yes.

Mr. GESELL. Had you at that time gotten to a consideration of uniform policy forms and provisions, and done something to make those provisions uniform?

Mr. FLYNN. Only so far as the policy provisions would be affected by those underwriting rules.

Mr. GESELL. Wherever the underwriting rule related to a policy provision, some uniformity resulted, did it not?

Mr. FLYNN. Yes.

Mr. GESELL. Will you tell me what led to the organization of the formal Group Association in 1926, why it was you changed the nature of your operations? What prompted the change, and what was the change?

Mr. FLYNN. Toward the end of 1925 competition became very intense.

Mr. GESELL. Tell me what you mean by that, please, Mr. Flynn.

Mr. FLYNN. Well, a large case would be in prospect and 4 or 5 companies would be trying to write it, and the various ways in which you would modify your proposition and give a little more for the money or a little different scheme for the employer were all worked out. Toward the end of 1925 schemes of experience rating were developed rather intensely; that is, at the end of the first year there would not be a guaranty, but another case had shown such and such an experience rating at the end of that period, therefore that would be mentioned. Toward the end of '25, or right at the end of the year, one company cut rates in large cases.

Mr. GESELL. What company was that?

Mr. FLYNN. That was Travelers.

Mr. GESELL. That was your company?

Mr. FLYNN. My company, because so many plans for modifying the net cost had been offered that we thought the best way was to simply cut the contract rate. The New York Insurance Department took cognizance of this development and called the companies together, and various hearings were held in December and January as a result. A law was enacted in the early part of 1926 establishing the legal minimum rate for group life insurance.

Mr. GESELL. Well now, before we come to the enactment of that law, which we will consider in a moment, I want to develop a little more the facts and circumstances that led to its enactment. You say that one company, the Travelers, had cut rates. Was it true that you were having difficulty holding other companies in line on the various underwriting provisions which you had set up?

Mr. FLYNN. I think only mainly as regards the matter of estimated net cost.

Mr. GESELL. Well now, you had a rule, did you not, which prevented the insurance company from agreeing to make available to the employer clerical assistance which was needed in the preparation of the cards and system to cover the group insurance?

Mr. FLYNN. Yes.

Mr. GESELL. Was not that one of the matters which you were having difficulty holding people in line on?

Mr. FLYNN. I think it probably was.

Mr. GESELL. May I read, to refresh your recollection, from a memorandum from you to President Butler under date of March 26, 1924? I read only a portion of the memorandum [reading from "Exhibit No. 647"]:

During the 2 weeks preceding the meeting, we had heard from the field of the offer of the Aetna in several cases to supply clerical assistance.

All that is is just getting some people over to help with the clerical side of the business, isn't it?

Mr. FLYNN. I think to stay there and continue to handle the clerical work in connection with the cards and registration.

Mr. GESELL. Just helping out the man, giving better service to the man getting the group policy.

Mr. FLYNN. Not installation, but continuing the handling of the records.

Mr. GESELL. During the time the policy is in force?

Mr. FLYNN. In force.

Mr. GESELL (reading further from "Exhibit No. 647"):

The offer was generally made in the form of a monthly allowance for clerical hire to handle the detail work. This violation of the spirit of the intercompany understanding by the Aetna was the first item on the agenda. After a hot discussion of an hour or two, the first two votes outlined in the minutes were adopted. In the course of the discussion a large number of cases where Mr. Cammack had strained the rules for his company's advantage were brought out. A couple of days after the meeting Mr. Cammack reported to me that the Aetna had withdrawn as of March 17 all outstanding quotations for clerical assistance.

Then [reading further]:

I am referring to the above matter as an important possible cause for trouble in the conference which was successfully cleared up and matters put in good shape in short order. It illustrates the willingness of the companies to play together on the basis of an honest interpretation of the rules. The meeting was unfortunate in that the discussion became somewhat heated and personal and undoubtedly scandalized the John Hancock representatives who were present.

Clearly Mr. Cammack was being badly chastised and it was apparent to all that upon the basis of his improper practices during the past 6 or 12 months he deserved the rough handling that he was getting. The measures which were necessary to whip the matter in shape left some of the weaker company members, such as the Connecticut General and the Missouri State, at the point where they were hinting at getting out of the conference in order to enjoy cut-rate opportunities.

Do you recall that memorandum?

Mr. FLYNN. Yes.

Mr. GESELL. Well now, all Mr. Cammack had done was to offer a little better service to his particular group by giving them some clerical assistance during the time the policy was in force.

Mr. FLYNN. I should say it was a material advantage, in that he was offering to pay for a clerk to handle all records which other employers would have to pay for themselves.

Mr. GESELL. You mean, it gave his company a competitive advantage?

Mr. FLYNN. That's it.

Mr. GESELL. And even though it might be in the interest of the particular group which had the policy, you wanted him to eliminate it and you made him eliminate it?

Mr. FLYNN. I wouldn't say it was mainly a question of policy-holders interest. It was one of many other ways which gave a monetary advantage to a particular purchaser.

Mr. GESELL. Why shouldn't Mr. Cammack do this if he wanted to do it? Why shouldn't he send one of his fellows over to this group?

Mr. FLYNN. Unless the companies established the practice of doing the work for the employers, I think it would be rather discriminatory to offer it to some.

Mr. GESELL. You mean you were alarmed because maybe Mr. Cammack hadn't offered this to all his groups?

Mr. FLYNN. Unless all companies were doing it.

Mr. GESELL. If he wanted to do it, even if he did it for one fellow it would help that fellow out, wouldn't it?

Mr. FLYNN. Well, it was a financial offer to a particular purchaser.

Mr. GESELL. In other words, Mr. Cammack had been adopting a procedure which, in net effect, enabled him to have a slight competitive advantage, and the rest of you companies were trying to prevent him from continuing it, and did succeed.

Mr. FLYNN. Yes—not slight, I would say, as to the competitive advantage.

Mr. GESELL. I offer the memorandum.

The CHAIRMAN. The memorandum may be received.

(The memorandum referred to was marked "Exhibit No. 647" and is included in the appendix on p. 4701.)

Mr. GESELL. Then am I correct in stating that this association was breaking down at many different points? Your company was cutting rates, some of the small companies were threatening to cut rates, Mr. Cammack was offering clerical assistance to some of his groups, and generally you were having a little difficulty in binding the companies together under your informal association.

Mr. FLYNN. That is correct.

Mr. GESELL. Who suggested the organization of a formal association?

Mr. FLYNN. I can't tell.

Mr. GESELL. Wasn't it true that that suggestion came as a natural course, as a way of binding the companies closer together and making the rules more enforceable?

Mr. FLYNN. I think that is true, and also to have more supervision, to have it more formal.

Mr. GESELL. You mean more self-supervision?

Mr. FLYNN. Yes; and also to bring in the New York Insurance Department to some extent.

Mr. GESELL. You didn't bring him in, did you? Isn't it a fact that your constitution, as originally drafted, contained a provision that he could come in, and you very carefully struck that out when you set up your final constitution, so he did have no participation?

Mr. FLYNN. I don't know about that.

Mr. GESELL. Let me show you this document and direct your attention to paragraph (c) on page 2, and ask if that doesn't refresh your recollection. It is a fact, isn't it, Mr. Flynn, that the superintendent of insurance has no official connection with the association?

Mr. FLYNN. That is correct. Apparently there is a paragraph there which was stricken out later.

Mr. GESELL. Were there any objections raised to the organization of this formal association?

Mr. FLYNN. Not that I can remember.

Mr. GESELL. May I show you this letter, a letter from Mr. Hurrell, vice president and general counsel of the Prudential, to Mr. Brosmith, and ask you if the initials on that letter do not indicate you had seen it and initialed it?

Mr. FLYNN. I noted that.

Mr. GESELL. In order that there can be no misunderstanding, let me read you this letter, which is dated February 24, 1926. This was just before your formal organization got under way, was it not?

Mr. FLYNN. Yes, sir.

Mr. GESELL. (reading from "Exhibit No. 648") :

The proposed constitution for the Group Life Association has been turned over to me by Mr. Little. I need hardly say that I appreciate the care and skill that you have displayed in drafting this constitution, and I cannot think of anything that has been overlooked in its preparation.

At the same time, I have been wondering whether a written constitution does not contain seeds of difficulty for the future. As we all know, the old informal group committee was, on the whole, unusually successful in avoiding improper methods of competition, particularly in avoiding the cutting of premium rates. The fact that first one and then another company chose to withdraw seems to have been the real cause of the subsequent difficulties. Where there is an association with the rather rigid rules prescribed in the tentative constitution, it seems to me there would be strong temptation for any dissatisfied company to withdraw as the only possible way in which it could secure independent action even on a quite minor point, whereas, as you know, under the more flexible system of the informal committee, certain differences in practice did persist while the committee was still able to secure a general agreement to follow its recommendations.

There does seem to be—

and this paragraph interests me in view of your statement about the insurance commissioner—

on the part of some of the insurance departments rather a decided tendency to look with disfavor on any positive agreement among the companies as to what shall and shall not be done in their dealings with the insuring public. To an insurance commissioner looking for matter for criticism, I am afraid the formal

constitution of the proposed Group Life Association would be found only too satisfactory as evidence that the companies were combining to prevent such freedom of competition as would result in the maximum service being offered for the premiums collected.

I am frank to admit that perhaps I am unduly timid in this connection, but I do feel that we secured a very satisfactory measure of success with the old informal group committee, and having now apparently got rid of the problem of premium rates, my own feeling is strongly in favor of avoiding anything that would supply ammunition to an unfair critic.

May I offer this letter?

The CHAIRMAN. The letter may be received.

(The letter referred to was marked "Exhibit No. 648" and is included in the appendix on p. 4702.)

Mr. GESELL. Were there any other companies that were afraid the formation of a formal association would have some of the difficulties which Mr. Hurrell suggests in his letter?

Mr. FLYNN. It may be that the Metropolitan still felt that there was some danger, but I don't recall whether that was so.

Mr. GESELL. Do you recall, Mr. Flynn, that in setting up the constitution and the rules which were adopted thereunder, that some legal question was raised as to the statement of the rules, and that the rules were slightly modified so as to avoid any indication that they would result in a combination in restraint of trade?

Mr. FLYNN. You mean a change in the wording of the constitution, or something of that kind?

Mr. GESELL. A change in the rules that were adopted.

Mr. FLYNN. I do.

Mr. GESELL. It is a fact, is it not, that under Mr. Brosmith's recommendations, rules which have previously said no companies shall do this or no companies shall do that, were changed to read no company should do this or no company should do that?

Mr. FLYNN. Yes, sir.

Mr. GESELL. Did that satisfy the Metropolitan and Prudential that all legal questions were eliminated?

Mr. FLYNN. I can't recall.

Mr. GESELL. You recall this letter to Mr. Beers, that you wrote on March 12, do you not [reading for "Exhibit No. 649"]:

Mr. Brosmith has redrafted the rules adopted by the Group Association at its meeting held March 5, 1926, as per copy attached.

As I told you the other day, his feeling was that the association should be careful in putting out its rules or its minutes of meetings to steer clear of any indication of combination in restraint of trade.

My suggestion would be that you send out new set of rules in accordance with Mr. Brosmith's draft to be used in place of the earlier set.

Mr. FLYNN. Yes, sir.

Mr. ARNOLD. Am I correct in assuming that the phrase "to steer clear of any indication of combination in restraint of trade" means that you wanted the combination, but you wanted to steer clear of the indication of the combination?

Mr. FLYNN. Yes; I think that is correct.

Mr. GESELL. May I offer this letter for the record?

The CHAIRMAN. The letter may be received.

(The letter referred to was marked "Exhibit No. 649" and is included in the appendix on p. 4703.)

Mr. GESELL. Now, Mr. Flynn, am I correct in saying that in order to obviate some of the difficulties which the Metropolitan and the

Prudential and some of these other companies had referred to, it was arranged that a law would be enacted under the laws of the State of New York which would enable the commissioner of insurance of the State of New York to establish the rates, minimum rates for group life insurance? ¹

Mr. FLYNN. I don't think that was the reason, Mr. Gesell. I think that the superintendent of insurance was the motivating power in that, in establishing that minimum rate law.

Mr. GESELL. After the law was enacted, the same "T" rate which had been the rate adopted by the informal association in 1922 was enacted as the basic minimum rate under the New York law, was it not?

Mr. FLYNN. Yes.

Mr. GESELL. And that rate is still the basic rate?

Mr. FLYNN. Yes, sir.

Mr. GESELL. Under the New York law.

Mr. FLYNN. Yes, sir.

Mr. GESELL. So that through the informal association from 1922 to 1926, and subsequently through the promulgation of that rate through the insurance commission under the State law, that "T" rate has been the basic rate.

Mr. FLYNN. Yes, sir.

Mr. GESELL. The companies recommended to the insurance commissioner unanimously, did they not, the adoption of this "T" rate at the time the law went into effect in 1926?

Mr. FLYNN. Yes, sir.

The CHAIRMAN. Would it be convenient for you to suspend now, Mr. Gesell?

Mr. GESELL. It would.

The CHAIRMAN. The committee will go into executive session for a few moments and will reassemble—what time do you want to reassemble, 2:15?

Mr. GESELL. 2:15 would be fine, sir.

The CHAIRMAN. The committee will reassemble at 2:15 this afternoon and you will be on the stand.

(Whereupon, at 12:10 noon, a recess was taken until 2:15 p. m. of the same day.)

AFTERNOON SESSION

(The hearing was resumed at 2:25 p. m., upon the expiration of the recess.)

The CHAIRMAN. The committee will please come to order. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. I am.

Before the noon recess, we were discussing the provision of the New York insurance law, article 2, section 101-a, subparagraph (3), which gives to the insurance superintendent authority to fix minimum rates for group life insurance, and in order that the record may be complete, I would like to offer a copy of this statute for the record.

The CHAIRMAN. It may be admitted.

¹ See "Exhibit No. 650," appendix, p. 4703.

(The copy of the statute referred to was marked "Exhibit No. 650" and is included in the appendix on p. 4703.)

Mr. GESELL. Now Mr. Flynn, that statute covered minimum rates on group life insurance for companies which were subject to the jurisdiction of the New York superintendent of insurance, did it not?

Mr. FLYNN. Yes, sir.

Mr. GESELL. There were, however, companies which were members of the association which were not subject to the jurisdiction of the New York commissioner, were there not?

Mr. FLYNN. Yes; that is right.

Mr. GESELL. Was not an agreement reached with those companies whereby they would abide by the rates established by the insurance commissioners?

Mr. FLYNN. Yes; they stated that they would abide by the New York department minimum rates.

Mr. GESELL. Even though they were not subject to his jurisdiction?

Mr. FLYNN. Correct.

Mr. GESELL. What companies were they? Am I correct in stating that the Missouri State was one?

Mr. FLYNN. That was one.

Mr. GESELL. The Canadian companies?

Mr. FLYNN. The Sun Life of Canada agreed.

Mr. GESELL. And what other companies?

Mr. FLYNN. I can't recall just which companies were doing business at that time.

Mr. GESELL. Well now, these companies which were not subject to the jurisdiction of the superintendent, did they enter into this agreement with you before you recommended a rate to the New York superintendent, or afterward?

Mr. FLYNN. I can't recall.

Mr. GESELL. Was it about the same time, do you think?

Mr. FLYNN. About the same time.

Mr. GESELL. A point with respect to that statute: Does it cover straight group life insurance, or does it cover also what are known as "extras," or rates for extra-hazardous industries?

Mr. FLYNN. The law covers the minimum rate, but the New York department has promulgated the extras by industries.

Mr. GESELL. There was some doubt when the law was first passed, was there not, as to whether or not it covered these so-called extra-hazardous occupations?

Mr. FLYNN. I don't recall.

Mr. GESELL. May I refresh your recollection by reading a portion of a memorandum which you wrote under date of February 4, 1926, in which you stated:

Mr. Lincoln, of the Metropolitan, and Major Tuck, of the Equitable, stated that if the New York insurance department would make a ruling with regard to extra premiums which must be charged by the companies for extra-hazardous classifications, so that with standard rates covered by the law all rate matters would be taken out of the companies' hands, their companies would enter into a formal association to promulgate rules and govern practices of the companies. Mr. Craig, of the Metropolitan and Major Tuck, of the Equitable, were appointed a committee to recommend to Superintendent Beha that both standard and extra rates be handled by him.

There was some question, was there not, at that time?

Mr. FLYNN. Apparently there was.

Mr. GESELL. As it has worked out, the New York department has established rates for extra-hazardous industries as well as the basic minimum group life rate.

Mr. FLYNN. Yes.

Mr. GESELL. Do you recall the date that the Group Association was organized?

Mr. FLYNN. I don't.

Mr. GESELL. Was it not March 5, 1926?

Mr. FLYNN. I would have to check up on that. I think that probably would be right.

Mr. GESELL. Do you recognize that as a copy of the Constitution?

Mr. FLYNN. It is a draft. It says "amended February 1939."

Mr. GESELL. That is the present constitution as in effect, is it not?

Mr. FLYNN. I would say so.

Mr. GESELL. And the constitution has been substantially the same since the date of the original organization of the association, has it not?

Mr. FLYNN. Substantially the same. I think one or two amendments have been made.

Mr. GESELL. Those amendments have mostly related to the establishment of separate sections to handle other forms of group insurance other than group life insurance, have they not?

Mr. FLYNN. Yes, sir.

Mr. GESELL. I would like to offer a copy of the constitution of the Group Association for the record.

The CHAIRMAN. The copy may be admitted.

(The document referred to was marked "Exhibit No. 651" and is included in the appendix on p. 4703.)

Mr. GESELL. I have no further questions for Mr. Flynn at this time. With the committee's permission I would like to ask that Mr. Flynn be not excused because we want to call him again tomorrow on a different subject.

The CHAIRMAN. Do any of the members of the committee desire to ask Mr. Flynn any questions?

Mr. FLYNN. To clarify some of the testimony of this morning, I would like to say that although the companies in the Group Association have uniform underwriting rules, uniform commissions and, under the New York statute, have uniform rates, the rates are the initial rates. All carriers today are in effect issuing participating policies. Participating companies have participation clauses in their contracts; nonparticipating companies are allowed under the New York statute to make retroactive rate credits, which in effect are dividends. So in effect the group life rates are today and have been for a number of years participating rates, and the net cost varies considerably among the companies. The main basis of competition today is not only service, such as claim service, but also the records of net cost at which the various companies carry risks of similar size and classification.

Mr. ARNOLD. It is very difficult for me to judge when presented by a number of insurance agents which is the cheaper company on the basis of dividends, isn't it?

Mr. FLYNN. That is correct although if a group prospect is shown as an example the actual experience of a risk of about the same size and industrial classification the problem is simplified.

Mr. ARNOLD. But there is always a hope for the future in the talk of about how efficient the company is, though it is actually the same.

Mr. FLYNN. That is true.

Mr. ARNOLD. So you don't really get the competition you get if the rates are different at the outset.

Mr. FLYNN. I don't see how you can have any more intense competition than we have today.

Mr. ARNOLD. I am talking about competition of prices.

Mr. FLYNN. Well, price is really the basis of the present-day competition, to a large extent. Service and reputation, et cetera, have, however, some effect.

Mr. ARNOLD. Yes; it is a good deal like competition in cigarettes and gasoline. There is a great deal of meetings and enthusiasm and all that but a general understanding that prices will not be cut.

Mr. FLYNN. Well, the initial price will not be cut; as experience indicates there will be a material change in net cost.

Mr. GESELL. Isn't it also true, although I didn't intend to get into the discussion until the next witness, that the Group Association has in force at the present time a rule, namely, rule 9-A, which definitely prohibits companies from making much competitive advantage out of their relative operating experience by limiting very closely the type of sales approach that they can make to a client with respect to the amount of money he may expect to get back out of his policy.

Mr. FLYNN. That is correct.

Mr. GESELL. We will come to a discussion of that rule.

The CHAIRMAN. What degree of competition is there among the companies which are associated in this organization?

Mr. FLYNN. In soliciting a new case, we are not permitted to say that we will carry it with a certain overhead for expenses added to claim cost.

The CHAIRMAN. You are not permitted by whom?

Mr. FLYNN. By the association. We are not permitted to state that our experience rating plan or our dividend plan would work out to such and such a dividend if you had such and such a loss ratio, but we are permitted—and this is the basis of competition—to take a risk of comparatively the same size and the same industrial classification and show what has been done in the way of dividends on that similar risk.

The CHAIRMAN. But you have, according to this memorandum of April 17, 1919,¹ effected an understanding as to rates and maximum commissions such that it is now possible to say that competition on the basis of rates and underwriting as well as commissions is avoided by the three Hartford companies, the Metropolitan; and the Prudential.

Mr. FLYNN. That is correct so far as the initial rates and initial costs.

The CHAIRMAN. Do you recall the answer which you gave when your attention was first directed to your memorandum of September 30, 1924, addressed to President Butler, which concluded with the following sentence:

There is the general feeling among all of the smaller companies based upon that which has been said in the Actuarial Society and other meetings that all

¹ See "Exhibit No. 643," appendix, p. 4688.

are invited to cooperate to obtain policy forms, underwriting rules, and so forth, if they will be good.

Your comment was that the phrase "if they will be good" was intended to imply that if they would follow sound practices.¹

Mr. FLYNN. Yes, sir.

The CHAIRMAN. And that it was your purpose only to lead these other companies along in the proper way?

Mr. FLYNN. That is it. It was a new line of insurance and we would like to help lead them.

The CHAIRMAN. Does that answer require any modification in your opinion in the light of your other memorandum of March 26, 1924, to President Butler, in which you said, describing the meeting at which Mr. Cammack was present [reading from "Exhibit No. 647"]:

The meeting was unfortunate in that the discussion became somewhat heated and personal and undoubtedly scandalized the John Hancock representatives who were present. Clearly Mr. Cammack was being badly chastised and it was apparent to all that upon the basis of his improper practices during the past 6 or 12 months he deserved the rough handling that he was getting.

Is that an example of how you led them along in the path in which they ought to go?

Mr. FLYNN. That is really an example.

The CHAIRMAN. It is an example?

Mr. FLYNN. Yes, sir.

The CHAIRMAN. I wonder if there are any other examples to which you might call the attention of the committee which have not been revealed by Mr. Gesell. I think you might enliven the hearing if you would give us a few more such examples.

Mr. FLYNN. Well, I know there were a number of other cases because the Group Association meetings have always been very frank and very much to the point with nothing held back. If I could remember, I know there are a number that could be told that would be very interesting.

The CHAIRMAN. The point always was to lead them along in the path in which they should go, so as to adopt sound practices?

Mr. FLYNN. That is exactly it.

The CHAIRMAN. Very well. Are there any other questions? You may call your next witness.

Mr. GESELL. The next witness is Mr. Cammack.

The CHAIRMAN. Mr. Cammack, do you solemnly swear that the testimony you are about to give shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CAMMACK. I do.

TESTIMONY OF E. E. CAMMACK, VICE PRESIDENT AND ACTUARY, AETNA LIFE INSURANCE CO., HARTFORD, CONN.

Mr. GESELL. Will you state your full name, please, sir?

Mr. CAMMACK. Edmund Ernest Cammack.

Mr. GESELL. With what company are you associated?

Mr. CAMMACK. The Aetna Life Insurance Co. of Hartford.

Mr. GESELL. Are you actuary and vice president of that company?

¹ See supra, p. 4158.

Mr. CAMMACK. Yes, sir.

Mr. GESELL. How long have you been with the company?

Mr. CAMMACK. Since 1910.

Mr. GESELL. You are familiar with the affairs of the Group Association since its formal organization in 1926, are you not?

Mr. CAMMACK. Yes.

Mr. GESELL. At the present time, and since November 1937, you have been chairman of the Group Association, have you not?

Mr. CAMMACK. Yes.

Mr. GESELL. I would like you to tell us a little about the organization of this Group Association, how often it meets, what types of committees it has, the type of matters it considers, the formal aspects of the Group Association's operations.

Mr. CAMMACK. The Group Association meets four times a year and special meetings may be called. The object of the Group Association is to promote sound underwriting practices and to prevent abuses cropping up in the business. Perhaps the fundamental idea of the Group Association is to encourage economy of operation so that the insurance can be extended to the industrial classes at minimum cost. As such the Group Association does not govern rates. I think I may say that it does govern to a large extent the cost of operation. Now, there is no insurance business so economically and perhaps efficiently managed as the group business. The expenses of operation in the group life business are very low; from 7 to 10 percent only of the premiums are consumed in expenses of management and taxes.

We believe that in the group business, which is intended to extend insurance coverage to the industrial classes at the lowest possible cost, costs should be divided between the employer and the employee. We believe that the employer should pay part of the cost, and it has been one of the objects of the Group Association to bring that about.

Now, the Group Association as such does not govern rates. The rates for group life insurance are promulgated and prescribed by the superintendent of insurance in New York.

Mr. GESELL. You are talking about group life insurance now?

Mr. CAMMACK. I am talking about group life insurance for the moment, sir.

When we say that the rates are governed by the New York Insurance Department I mean simply the initial deposit. The rate under the group life policy is not determined until the end of the first year, and it is different in each company, and it is the subject of the keenest competition.

I am associated with a nonparticipating company, and we will write a group policy, if you will, on a thousand lives, and the initial rate prescribed by New York law, we will say, is 90 cents a month per \$1,000 of insurance. We provide in our policy that at the end of the year we will adjust that rate downward if experience justifies it. We cannot raise it. But if, for example, we can reduce the rate from 90 cents to 70 cents for the second year, we make that second year cost retroactive to the first year, and we give the policyholder a 20-cent refund, so that you see the rate is not determined in advance—the rate is little more than a deposit.

Mr. GESELL. Well, now, Mr. Cammack, my question to you was, Will you tell us about the formal organization of the association? I am

very interested in this question of rebating, the whole question of cost of insurance, and whether or not the business is or is not competitive, but I would like to set up for the committee, first, if you don't mind, the formal organization of the committee, who the members are, how often it meets, what types of rules they are bound by, how they vote, what kind of decisions they have. Then we can get into these more technical and interesting matters.

Mr. CAMMACK. Yes, sir. There are two officers of the association, the chairman and the secretary. There is a chairman of the subsection that handles group sickness matters, and another subsection that handles group pensions.

Mr. GESELL. By group pensions you mean group annuities?

Mr. CAMMACK. Group annuities.

Now the group association passes underwriting rules. No underwriting rule is adopted unless it is unanimously voted for, and after meeting, the companies have some 10 days in which to veto that rule.

Mr. GESELL. Let me see if I get that straight. You have a vote at the regular meeting of your association.

Mr. CAMMACK. Every member.

Mr. GESELL. And suppose that all the members say, "We are in favor of this rule." There is still a 10-day period within which the representatives can veto. They may do that after they consult the management of their companies or after further consideration, or for whatever reason it is.

Mr. CAMMACK. That is so.

Now a member is bound, in writing, to the rules that are so adopted, but if one of the companies feels that the ruling is not a good one, that member can serve notice that after 60 days it withdraws from that rule, and it is not bound by that rule any more.

The CHAIRMAN. Did you say a member is bound in writing?

Mr. CAMMACK. A member who joins the association agrees in writing to keep the rules of the Group Association.

Mr. GESELL. That is provided for in the constitution, is it not?¹

Mr. CAMMACK. I think that is in the constitution. I am sure it is.

We have various committees appointed. One of the objects of the Group Association is to compile the experience of its members. We want to know what the death rate is in every industry according to age, we want to know what the sickness rate is in various industries, we want to know what the mortality rate is under pension plans.

Mr. GESELL. For that purpose you have various standing committees that you appoint to look into such matters, do you not, such as the mortality committee, complaint committee, accident committee, committee on group hospitalization, group annuity experience committee, committee to cooperate with the legal departments in dealing with legislative matters, and so forth?

Mr. CAMMACK. That is so.

Mr. GESELL. And if you have some experience which you want to pool and collect from the companies it is delegated to the particular standing committee concerned with those affairs and that committee comes back and reports to the full association as to its findings and recommendations?

¹ See "Exhibit No. 651," appendix, p. 4703.

Mr. CAMMACK. Yes, sir.

Mr. GESELL. Well now, I show you a schedule entitled "Officers Elected at Annual Meeting of Group Association," which shows the chairman, the secretary, and chairmen of the two principal subsections since 1926, and ask you if that is a correct schedule prepared by you?

Mr. CAMMACK. That is correct.

Mr. GESELL. I also show you a schedule entitled "List of Standing Committees." Are those the principal committees and the names of the chairmen of each of those committees?

Mr. CAMMACK. That is correct.

Mr. GESELL. I notice that with respect to both of these documents the principal officers and the chairmanships of the principal standing committees has been in the past almost uniformly allocated to one of the larger companies. Has that been by chance, or what is the reason?

Mr. CAMMACK. Well, the reason is, I think, that five companies have such a large proportion of this business that I think it is naturally assumed they know more about it. Perhaps that is the reason.

Mr. GESELL. I would like to offer these schedules for the record.

The CHAIRMAN. They may be received.

(The schedules referred to were marked "Exhibits Nos. 652 and 653" and are included in the appendix on pp. 4705 and 4706.)

Mr. GESELL. Mr. Cammack, do you recognize those five bound volumes as the minutes of the Group Association?

Mr. CAMMACK. Well, I don't recognize them.

Mr. GESELL. Will you look at them and see if they are not the records that you made available to the representatives of the committee some while back?

Mr. CAMMACK. Yes; I am quite sure they are.

Mr. GESELL. That is a complete set of the minutes, is it not?

Mr. CAMMACK. I believe so.

Mr. GESELL. If the committee please, the staff of the Commission has prepared from the minute books, which are here at the hearing, a chart entitled "Members of the Group Association." This chart shows the names of all companies which have been members of the association, the year they joined, and the period of time for which they continued. The minutes themselves are so bulky that I believe this summary is all that is required for the record, and I offer it, of course, as usual, subject to correction.

The CHAIRMAN. May I ask if it has been verified by the witness?

Mr. GESELL. No, it has not; but it was taken from the records submitted.

The CHAIRMAN. This has been prepared by the staff from the minute books?

Mr. GESELL. From the minute book Mr. Cammack has just identified.

The CHAIRMAN. It is accepted as you offer it, subject to correction.

(The chart referred to was marked "Exhibit No. 654" and is included in the appendix on p. 4707.)

The CHAIRMAN. Does this purport to show when the certain companies withdrew?

Mr. GESELL. Yes; it does. When the line discontinues their withdrawal is reflected on that chart.

The CHAIRMAN. The beginning of the line indicates when a particular company entered the association and the ending when it withdrew.

Mr. GESELL. That is correct.

We have also prepared from the minutes of the association, and I wish to offer this schedule, subject to the same qualification, a schedule showing the attendance of various companies at the meetings of the association held for the period from February 3, 1926, up until February 20, 1939. This has been again compiled from the minutes of the association.

The CHAIRMAN. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 655" and is included in the appendix on p. 4708.)

Mr. GESELL. I want to discuss with you, Mr. Cammack, in some detail the formal operations of the association. Before I do that, have you any idea as to the percentage of group life insurance which is represented by the members of this association?

Mr. CAMMACK. No, sir; I couldn't tell you. Of course it is a very large proportion.

Mr. GESELL. It probably runs over 90 percent, would you say? It has run over 90 percent since 1926?

Mr. CAMMACK. Of group life business, I think perhaps that figure is reasonable.

Mr. GESELL. We have to offer for the record at this time a schedule entitled "Group Life Insurance in the United States." This schedule has been prepared by the staff of the commission from the Spectator Insurance Book, the issues 1927 to 1938, inclusive. It shows yearly the number of United States and Canadian companies writing group life insurance and the amount of insurance in force at the end of each year. It also shows the number of those companies which are members of the Group Association, and the insurance in force written by association company members, and there is a computation to show what percentage of insurance in force is attributal to the Group Association companies. I might say in summary that over the period 1926-37 the Group Association companies had on the average of 93.5 percent of the total group life insurance in force in the United States. Over the 12-year period, January 1, 1926, to December 31, 1937, Group Association companies wrote on the average more than 81 percent of the initial group life insurance issued under new contracts.

I would like to offer this schedule for the record.

The CHAIRMAN. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 656" and is included in the appendix on p. 4710.)

Mr. GESELL. Paragraph 5, article II, of the constitution, Group Association, Mr. Cammack, reads,¹ "But nothing in this constitution or in any rule adopted subordinate thereto shall be held to authorize the making or promulgation of premium rates," does it not?

Mr. CAMMACK. Yes.

Mr. GESELL. And I believe you said in discussing the association in your beginning remarks that the association has not had anything to do with the fixing of group life insurance rates.

¹ See "Exhibit No. 651," appendix, p. 4703, at p. 4704.

Mr. CAMMACK. I did not intend to make that statement. I said in itself the Group Association did not make rates. Indirectly, of course, it has a bearing on initial rates. If I might explain that, I would be glad to do so.

Mr. GESELL. Let me see if I understand it, and then if any explanation is necessary I wish you would give it.

The CHAIRMAN. To what clause of the constitution did you refer?

Mr. GESELL. Paragraph 5, article II.

The superintendent of insurance has established under the New York law as the minimum group life insurance rate, the T rate, which we were discussing when Mr. Flynn was on the stand.¹

Mr. CAMMACK. Yes.

Mr. GESELL. Now, that rate is the initial rate, as you call it, the selling rate, the rate at which group life insurance must be sold, the minimum rate.

Mr. CAMMACK. I don't think that is the rate at which it is sold. I think that is more in the nature of a deposit, because under our policies we do not determine the rate until the end of the year, and that is a competitive matter. Now, the rates, for instance, in my companies that are actually in effect are some 17 percent below the minimum rate prescribed by the New York law.

Mr. GESELL. When you go to an employer and say, "Here, I want to write a group policy," the rate you quote to him is this T rate, is it not, and then you say to him that actually your true rate cannot be determined until you have had the advantage of reviewing the experience of his company over the year which is to come, and then certain rebates and adjustments are made, but this rate which you put to him originally is the maximum rate which he must pay and the rate that is quoted to him, is it not?

Mr. CAMMACK. That is the maximum rate which he must pay and the rate we quote to him subject to the provision in the policy that we will make a revision in that rate downward for the first year if experience justifies it, and moreover we show him from experience that it is usual to make a revision in the rate.

Mr. FRANK. But all companies in the group are quoting the same initial rate.

Mr. CAMMACK. They all quote the same initial rate.

Mr. GESELL. If we have an extrahazardous industry which, I understand, would be an industry where the mortality experienced by reason of the occupation of the employees is expected to be in excess of American Mortality Table, special rates can be provided, can they not, by the promulgation through the superintendent of extrahazardous rates for certain types of occupations?

Mr. CAMMACK. Yes; for certain types we are compelled to quote a higher initial rate.

Mr. GESELL. Now, has it not been the practice for the Group Association to make recommendations for extrahazardous rates to the superintendent of insurance from time to time?

Mr. CAMMACK. When we have compiled the experience under our group life policies, it has been the custom for members of the Group Association to review that experience; and if it appears to indicate

that certain industries need an extra premium we have submitted our recommendations to the superintendent of insurance.

Mr. GESELL. Your association, after reaching unanimous agreement, makes the recommendation for the new rate in the particular industry to the superintendent?

Mr. CAMMACK. No, sir; that is not so. On the question of rates we do not come to any unanimous agreement. A committee will be appointed, the fact is, to interpret the experience, and their findings are submitted to the superintendent of insurance, but the question is not put to the group association for unanimous agreement.

Mr. GESELL. You mean your committee goes directly to the superintendent of insurance?

Mr. CAMMACK. That is so.

Mr. GESELL. Now will you tell me whether there has been any time in your recollection that the superintendent of insurance has promulgated a rate which was not one which was recommended to him by one of your committees? I was able to find one, Mr. Cammack, in connection with the brewery industry, but that was the only one I could find.

Mr. CAMMACK. Well, I think I can think of another. I believe it promulgated an extra rate for labor-union groups. I don't think that was recommended by the association.

Mr. GESELL. By and large, the rates which he has promulgated have been at the recommendation of this committee?

Mr. CAMMACK. That is so.

Mr. GESELL. Does that committee not make its recommendation in the name of the Group Association?

Mr. CAMMACK. I would say not. I think the procedure is to submit to the superintendent the experience that we have compiled, and we say we think that the experience here is 20 percent higher in this industry than the average, and we think there ought to be a 20-percent extra rate. I think that is the procedure. It really lies with the superintendent, but, of course, he must base his conclusions on the experience of the companies which we have been very careful to file with him every year.

The CHAIRMAN. You file your experience and you make your suggestion and then what happens?

Mr. CAMMACK. Well, then he usually follows our suggestions, by ruling.

Mr. HENDERSON. Let me get that. What did you mean by "he must follow"? You don't mean by law.

Mr. CAMMACK. Oh, no; he makes his own. But what I mean to say is that the superintendent cannot make rates except on experience.

The CHAIRMAN. And he has no source of experience except that which you give him.

Mr. CAMMACK. He has no other source of experience; and if we give him an experience which shows an extra premium is needed, if I said "must" I mean it is just a reasonable thing.

Mr. GESELL. I have a memorandum that went to members of the Group Association under April 7, 1933, which doesn't gibe with what you say, Mr. Cammack. The second paragraph says, "It has been the practice of the association to make recommendations to the superintendent of insurance for industry loadings and usually such recommendations have been voted on at a regular association meeting and the

recommendations have invariably been followed by the superintendent." That would indicate both that the superintendent follows your recommendations and that the association formally approves the recommendations of the particular committee which has compiled the experience.

Mr. CAMMACK. There is this difference, Mr. Gesell. Under our constitution, I stated that no rule could be adopted except with the unanimous consent of all the members. Now, any recommendation we may make to the superintendent in regard to rates is not a unanimous recommendation. It is just the sense of the association.

Mr. GESELL. In other words, if the recommendation of a small committee comes before the association and one member is in disagreement he can be overruled with respect to placing the recommendation before the superintendent of insurance, whereas he couldn't be overruled if it was a matter of a rule.

Mr. CAMMACK. That is true.

The CHAIRMAN. You say such a recommendation is not a unanimous decision?

Mr. CAMMACK. No.

The CHAIRMAN. Do you mean to imply that there is usually a debate?

Mr. CAMMACK. As a matter of fact, in practice there is no debate. It is a small committee. It is the committee which compiles the experience, of which I happen to be the chairman.

The CHAIRMAN. Is there any disagreement?

Mr. CAMMACK. Very seldom.

The CHAIRMAN. So that to all intents and purposes it is unanimous.

Mr. CAMMACK. It is because in one industry, if we have a large experience in it and if the experience shows that we need a 20 percent extra rate, there is nothing very much to discuss, I mean everybody agrees with it.

The CHAIRMAN. But you appear to draw a distinction between the unanimity with which a rule must be supported and a more informal action which supports a recommendation, and I am trying to determine just what that difference is. Now you tell me that there is no disagreement, ordinarily, with respect to the recommendation regarding rates.

Mr. CAMMACK. You are precisely right in regard to the recommendation of an extra premium; if the majority of the members think it should be made, we make it.

The CHAIRMAN. So that the recommendation goes up to the State insurance commissioner, to all intents and purposes, as the unanimous recommendation of the association.

Mr. CAMMACK. Not as the unanimous one; no sir. In some cases the insurance superintendent has written to perhaps all the companies writing group insurance in New York and asked each company for its opinion.

The CHAIRMAN. Well, if there is no disagreement when the committee acts, that is a unanimous recommendation.

Mr. CAMMACK. Well, it will not be unanimous, perhaps, in a committee of five, three think one thing, and one thinks for one reason it shouldn't be.

Mr. GESELL. May I ask how you explain this letter. This is a copy of a letter from the minute books of the association dated February 11, from the State of New York Insurance Department, addressed to Mr. Craig of the Metropolitan, signed by Mr. Alfred Conway, superintendent, re proportion of premiums to be paid by employees under group life-insurance policies. He discusses the receipt of a letter from the association quoting a rule which was adopted at the meeting of the association with respect to this matter and he says, "The above provision," which he sets forth in some detail, "will take the place of section 6, this department's letter," and so forth. "The above ruling will be promulgated with effective date of March 1, 1928, provided no company veto of the Group Association rule is recorded." In other words, the superintendent of insurance here is in effect ratifying the constitution of the association and making sure that you don't have a single veto before he adopts a recommendation which has been made.

Mr. CAMMACK. Excuse me, sir, I think this is not a question of a rate on a group life policy. The question here was: What is the maximum amount that an employee should pay for one thousand of group life insurance a month? Now the rate for one thousand of group life insurance a month will vary from 70 cents to say \$1.10 or \$1.20. Now we have a rule that the employee may not contribute more than 60 cents a month and the employer must pay the balance. Now the Group Association does pass rules or can pass rules by its constitution as to the maximum contribution that an employee may make toward his group insurance. This was not the rate to be charged.

Mr. GESELL. It had a direct effect on the rate, did it not?

Mr. CAMMACK. No; it would have no effect.

Mr. FRANK. May I ask a question, Mr. Cammack? I understood you to say, perhaps I was in error, that your committee would meet, and if a majority of them believed that the experience indicated a certain rate, then that would be the recommendation of the committee. Is that correct?

Mr. CAMMACK. That is right.

Mr. FRANK. Then I would gather from that that the conclusion that the committee arrives at is not an irresistible inference compelled by the data, but that there is room for difference of opinion, but that the minority will acquiesce in the majority judgment.

Mr. CAMMACK. Oh, there would be some difference of opinion; yes. There would be some difference of opinion.

Mr. FRANK. Then when the superintendent acts upon that recommendation he is not then performing, if he were to go through the reasoning process of relying on your data and drawing a conclusion, he is not going through, a purely mechanical process of drawing an irresistible inference from the premises presented by the data?

Mr. CAMMACK. That is so.

Dr. LUBIN. Do you know of any instances where the superintendent of insurance has himself investigated the experience of specific industries to see whether the conclusions you came to were justified?

Mr. CAMMACK. No, sir; I don't think that he could, because there is not much experience to be gathered except from the business of the members of the association that we compile and give to the superintendent.

Dr. LUBIN. Do you give him a summary experience of all the companies who have been writing that sort of business, or do you give him the experience of each individual company?

Mr. CAMMACK. No; the experience we compile is the experience of about six companies. I think the six largest ones, which would be the bulk of the business, and we compile it for each industry and show the mortality for each age, and we sent it to the superintendent.

Dr. LUBIN. For each company individually?

Mr. CAMMACK. No; for the six companies combined.

Dr. LUBIN. So that in the event the experience of one company would be more favorable than the experience of the other five, he wouldn't know that, would he?

Mr. CAMMACK. No; he wouldn't.

Mr. GESELL. I have, bearing on this matter, a schedule which we have prepared from the minutes of the association showing, with respect to a series of rules promulgated by the superintendent of insurance, the date that these proposed rules were discussed by the association, the date (where known) when they were recommended to the superintendent, and the date they were promulgated by the superintendent. I would like to offer this for the record.

The CHAIRMAN. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 657" and is included in the appendix on p. 4710.)

Mr. GESELL. Now, bearing on the question of whether the association approves these recommendations or not, may I read you hit or miss one or two paragraphs from your minutes, Mr. Cammack? From the minutes of a special meeting held at the Waldorf-Astoria, May 20, 1936:

The committee to consider what changes, if any, to be recommended to the New York superintendent of insurance in connection with the rulings regarding extra premiums for group life insurance made its report, which was discussed and accepted, subject to certain changes voted by the meeting. The chairman and the secretary were instructed to present this matter to the New York department with the recommendation that suitable action be taken.

That would indicate clearly that it is an association matter when it is presented to the superintendent of insurance?

Mr. CAMMACK. That is true. The association submits it, but, as I said before, to adopt a recommendation for an extra rate does not need the unanimous approval of the members.

Mr. HENDERSON. Are you going to develop anything from that?

Mr. GESELL. I thought it spoke for itself.

Mr. HENDERSON. I notice you have set up three columns. The last two are "Date recommended to superintendent (where known)" and "Date promulgated."¹ In the four instances where you have that information the longest lapse of time between the time the superintendent received the recommendation and their promulgation, I gather, is something like 21 or 22 days. In one instance it was 4 days, in another instance 8 days, and in another instance 15 days. Mr. Cammack, does promulgation usually follow as promptly as that after receipt by the superintendent of your recommendations?

Mr. CAMMACK. I think he has usually adopted our recommendations promptly.

¹ See "Exhibit No. 657," appendix, p. 4710.

Dr. LUBIN. Mr. Cammack, may I clarify this matter for my own mind? As I understand it, the companies, on the basis of their experience through this committee, come to the conclusion that a given rate would have to be loaded 20 percent. They submit a statement to the insurance commissioner which, in effect, is a rate that they think should be fixed. He then accepts that rate, so that in reality the companies become legally compelled to fix the rates that they themselves have determined. Is that a correct conclusion of what you have said?

Mr. CAMMACK. Well, I don't think the companies determine the rates. The companies prepare the experience, they interpret the experience, and they submit their recommendations to the superintendent. I feel, sir, that if we submitted some recommendations to the superintendent without any data to show that those recommendations were reasonable and fair, I don't think they would be approved.

Mr. HENDERSON. But there has been, as I gather from what you were saying in discussing the chairman's question, a situation where there was not unanimity of opinion sometimes on these recommendations, and that the majority generally prevailed.

Mr. CAMMACK. Well, somebody mentioned the breweries just now. I remember that some of us, most of us, thought that breweries could be written at regular rates, but one man who never took a drink said we ought to have a \$2 extra.

Mr. GESELL. That was the one exception that proved the rule that I was able to get out of five volumes of minutes. Let's not talk about beer. What about the great bulk?

Mr. CAMMACK. The great bulk of the recommendations are adopted.

Mr. HENDERSON. But they are the majority recommendations of the committee.

The CHAIRMAN. And there is no substantial disagreement at any time.

Mr. CAMMACK. That is so.

Dr. LUBIN. But in the event that company A felt that no loading was necessary and that it was willing, on the basis of its own experience, to write insurance on the existing rate, the fact still remains that if the majority of the committee should recommend to the Commissioner that the rate should be loaded, that company is legally bound to charge that high rate.

Mr. CAMMACK. That would be so, if the superintendent promulgated that extra premium.

Dr. LUBIN. And he does generally?

Mr. CAMMACK. Yes.

The CHAIRMAN. "Invariably" was the word that was used?

Mr. CAMMACK. Almost invariably.

Mr. ARNOLD. That wouldn't be true outside of the State of New York, and therefore out of the State of New York the companies are not bound to charge the rate fixed by the New York Commission, yet they always do.

Mr. CAMMACK. They are bound to follow the New York rate if they are licensed to do business in New York.

Mr. GESELL. But Mr. Flynn stated that the companies which were not licensed to do business in New York but which were writing group insurance and were members of the Group Association had

agreed to abide by the rates fixed by the Superintendent of Insurance of New York, even though he had no authority over them.¹

Mr. CAMMACK. They have been doing so; yes.

Mr. ARNOLD. And they are more or less compelled to do that by your constitution, are they not?

Mr. CAMMACK. No; I don't think they would be violating any rule of the Group Association if they quoted lower rates.

Mr. GESELL. That would be what you call a gentleman's understanding.

Mr. CAMMACK. I think so.

The CHAIRMAN. The sum and substance of the situation is this, is it not, that the superintendent of insurance in New York has no means of determining experience except that which you supply him, and that you, and by you I mean of course the association, hold your meetings, you come to a determination of what the experience is, you do that by agreement—it may not be unanimous, it may not have been voted upon by all, but it is by unanimous consent, as we sometimes say—and that experience table, with the recommendation, then goes to the superintendent of insurance, who thereupon, within usually a very short period of time, ordinarily adopts that recommendation and makes it the legal rate in the State of New York, which is then followed throughout the country, is it not?

Mr. CAMMACK. Just one step further. It makes it the legal rate throughout the United States for any company doing business in New York, because the law reads that if a company does not follow those rates throughout the country, it will not be licensed to do business in New York.

The CHAIRMAN. So that in effect the rate is determined by this association, which has submitted its experience and its recommendations to the superintendent.

Mr. CAMMACK. Yes, sir; although I would like to say that I think the rate is really determined upon the experience that is compiled by the Group Association, and the object, of course—

The CHAIRMAN (interposing). I meant to say that, of course. You gather your experience, whatever it may be, and from whatever sources you get it, but it is the association that does that, not the superintendent of insurance. He has no means of doing it. It is your association that does it. Your association compiles the material, makes its recommendation as to the rate, and almost invariably the superintendent of insurance follows that recommendation.

Mr. CAMMACK. That is right.

Mr. FRANK. And the superintendent, as I understand it, does not have the benefit of seeing the data of the individual companies, but simply this composite experience.

Mr. CAMMACK. We send him only the composite experience. Of course the experience of one company wouldn't be of very much value. You have to have a large experience to determine a rate.

Mr. ARNOLD. May I contrast two methods of handling this situation? One would be for the Insurance Commissioner to send out to companies which were not meeting in an association to determine rates for information regarding their experience, and having that

¹ Supra, p. 4137.

information before him, to exercise an independent judgment as to what rates should be charged. Now by that method he would get all of the information which he now gets from your association, wouldn't he?

Mr. CAMMACK. Yes.

Mr. ARNOLD. And there would be no process by which part of that information would be withheld, and there would be no pressure on any individual company to agree with some other under that system, would there?

Mr. CAMMACK. I don't think I quite follow the last.

Mr. ARNOLD. I was assuming that there was a certain amount of pressure in this association to follow good sound leadership, and at times when they didn't do that they were even chastised, and that type of pressure would be absent if the superintendent wrote to all of the companies who were not gathering together for the purpose of fixing rates to get this information.

Mr. CAMMACK. Well, of course, we have such a large bulk of the experience compiled; if there was added to that experience the experience of the small companies who did not contribute their experience, it would really not make it any more valuable as a basis for rates.

Mr. ARNOLD. It might create certain independent judgments which the superintendent could appraise, whereas under your present system all independent judgments are in the great majority of instances ironed out in conference.

Mr. CAMMACK. I don't think so. We give the superintendent the actual experience, without any comments. We give him all the information which an expert should have to make rates. He needs nothing more. We give him everything that we have.

Mr. GESELL. Let me just challenge that statement very directly, Mr. Cammack. You, in your original T scale, have determined the loading on all kinds of policies, haven't you?

Mr. CAMMACK. In nonhazardous industry.

Mr. GESELL. When you carry into the hazardous industry you change the rate from the mortality point of view, but the loading remains constant.

Mr. CAMMACK. The extra premium is to pay the extra death claims we expect.

Mr. GESELL. So that your loading on these policies has been determined by the original basic T rate?

Mr. CAMMACK. The T rate contains the loading; yes.

Mr. GESELL. Do I understand from you that there is no degree of differences as between the companies of your association with respect to the expense factor in running their business, that the loading should be always the same for all of these companies if it had been reached independently of the insurance commissioner?

Mr. CAMMACK. No, sir; the object, I think, of the superintendent of New York in promulgating a rate is to obtain a rate that will be adequate for the great bulk of risks that are submitted in the industry to which they belong, but will not be excessive. We know that those rates are higher than we need on the best class of risks, and we adjust those rates at the end of the year for the first year, so that the policyholder is not overcharged.

The CHAIRMAN. May I ask you, Mr. Cammack, what, in your opinion, is the protection of the public interest in this system that you have described?

Mr. CAMMACK. In my opinion, the results are the answer. The expense rate, including taxes, on group life insurance, runs from 7 to, say, 12 percent in the leading companies. It is the lowest expense rate in any insurance business.

The CHAIRMAN. That, of course, is not a definite answer. What you are saying is that this system has, in your opinion, operated beneficially.

Mr. CAMMACK. May I tell you why I think it has brought about that low expense rate?

The CHAIRMAN. Certainly.

Mr. CAMMACK. It is because when we are competing for a new risk the purchaser does not consider that the rates are the same. He says to each company, "Now I want to know how much is this going to cost me. You must have enough money for your claims, and you must have something for overhead and taxes. Show me what you have done on other companies."

Well, the answer in our company would be that we have operated on an expense rate of about 9 percent. The expense rate is lower on the large risks and higher on the small ones, and I should pick out half a dozen cases of about the same size as his in the same industry, with similar schedules of insurance, and say: "Sir, this is what we have been able to do. Compare it with the other companies," and if it doesn't compare well, we don't write it.

The CHAIRMAN. That isn't exactly what I was driving at. We have demonstrated now, according to your testimony, that the rates are fixed by the superintendent of insurance upon a showing that is made to him by the association. So my question to you was: "What is the protection of the public interest in that system?" And your answer is, "The experience we have had," which doesn't reach the point, as I see it. Does it not depend, this rate which is fixed, wholly upon the accuracy of the representations which you make under this system?

Mr. CAMMACK. Well, I don't think there can be any doubt about the accuracy.

The CHAIRMAN. That is aside from the question. Does the result not depend upon the accuracy of the representation that you make?

Mr. CAMMACK. It depends upon the experience and the accuracy with which it is compiled.

The CHAIRMAN. And there is no check of those representations by anybody on behalf of the public?

Mr. CAMMACK. I think, Senator, it would be impossible to do anything except what we do; if the insurance department itself compiled the experience, it could do nothing but ask for the data that we prepare.

The CHAIRMAN. Do you submit these data under oath, let us say?

Mr. CAMMACK. No; we do not.

The CHAIRMAN. So that it all depends upon the good faith and accuracy of the association in submitting this material to the superintendent. Is that not so?

Mr. CAMMACK. Well, Senator, it seems to me to be impossible that these results could be inaccurate, or deliberately inaccurate.

The CHAIRMAN. Of course, as an actuary, that is naturally your opinion, and perhaps altogether justified, but that is aside from the question.

Mr. CAMMACK. As an actuary, the mortality experience amongst insured lives has always been compiled by actuarial bodies, and this experience on group life insurance has been compiled by a committee, I think, of five actuaries.

The CHAIRMAN. I can judge from your answers that you regard this experience submitted by the actuaries as almost a mathematical certainty that cannot vary one way or the other. But so far as the public is concerned, so far as the superintendent of insurance is concerned, he is accepting the work of the actuaries of the association which sells the insurance. Is that not so?

Mr. CAMMACK. I think that is true.

The CHAIRMAN. And there is no check in the public interest of that information.

Mr. CAMMACK. Senator, these experiences have been published widely. They have been published in the transactions of the Actuarial Society, they have been discussed there. They are available to anybody.

The CHAIRMAN. All right, then. Let us forget the mathematical exactitude of the experiences and turn our attention to the recommendations which your association makes on the basis of those experiences. Are they entitled to the same degree of mathematical respect?

Mr. CAMMACK. I think I could explain them very simply.

The CHAIRMAN. Are they? Are they entitled to that same degree of respect? That can be answered "Yes" or "No."

Mr. CAMMACK. Not with the same mathematical certainty; no.

The CHAIRMAN. Certainly not. In other words, there is an element of judgment entering there.

Mr. FRANK. There must be an element of judgment, since you told us your committee was not always unanimous in its belief, but always unanimous in your recommendations.

Mr. CAMMACK. I have admitted there is room for an element of judgment there.

The CHAIRMAN. But to get down to the question again: What protection is there of the public interest when the rates are almost invariably those which are recommended by the association of companies most interested in fixing the rates?

Mr. CAMMACK. Well, Senator, I would reply that the experience is published, and it is open to the public or any expert so they can themselves examine it.

The CHAIRMAN. Now you are going back to the experience. I have abandoned that in order to get this less certain judgment with respect to the recommendation which you say can be subject to some disagreement, though ordinarily there is no disagreement in the recommendation.

Mr. CAMMACK. Well, may I illustrate it? We compile the experience in what you might call nonhazardous industries where there is no particular accident hazard and no particular health hazard, and then we compare that with the mortality experience in, we will say, a steel mill; and if we have got a large experience and it shows that the mortality in the steel mill—mind you, I am talking about a large experience with perhaps 2,000 deaths in two or three hundred thou-

sand—and the mortality in the steel mill is 20 percent higher and has been 20 percent higher than in the nonhazardous, we recommend a 20-percent extra.

The CHAIRMAN. That is perfectly clear. I am assuming the entire accuracy of your experience, and I am assuming the complete good faith of your recommendations; and, having made those two assumptions, I say to you: Is it not a fact that the only protection of the public interest in this situation which you have so clearly described is the accuracy and the good faith of this association of companies?

Mr. CAMMACK. Well, they'd have no protection if the experience was not accurately and honestly compiled.

The CHAIRMAN. That is the only protection they have, isn't it? I don't know why you should be unwilling to answer.

Mr. CAMMACK. I will answer that, but it seems to me the protection is enough.

The CHAIRMAN. Ah, but that is the only protection there is.

(Mr. Cammack nodded his head in the affirmative.)

Mr. ARNOLD. May I approach it from a slightly different angle? I presume you would say that the accountants for public utilities are on the whole just as honest and acting in just as good faith and are just as accurate as insurance actuaries.

Mr. CAMMACK. I must admit I know nothing about public utilities, but I expect the accountants are honest people.

Mr. ARNOLD. You wouldn't mind making that assumption for the moment?

(Mr. Cammack nodded his head in the affirmative.)

Mr. ARNOLD. Now, would you be satisfied with a public-utility rate which was determined entirely upon consultation with the accountants of the public-utility companies and on which the public-utility commissioner exercised no independent judgment?

Mr. CAMMACK. I don't think the cases are analogous.

Mr. ARNOLD. Would you be satisfied with it?

Mr. CAMMACK. No; no.

Mr. ARNOLD. Therefore, it must be, if there is a difference, that there is some sacrosanct character to insurance actuaries which doesn't exist with public utilities.

Mr. CAMMACK. No; the only part the actuary plays in this is to compile the mortality experience. All I want to say is that one industry has a 20-percent higher mortality than another and another has 30 percent; the coal-mining industry has a mortality of 50 percent higher than you get among bank clerks. Now, that we know.

Mr. GESELL. We have these rates, also the loading factor—don't we?—which stems back to that basic T rate which was put into effect as soon as the law went into existence, so that by promulgating that basic T rate, no matter how much the companies are in agreement on mortality experience, there is a complete disappearance of all those factors which would tend to show disparity between rates and the initial quotations of the rates to be insured. Isn't that correct?

Mr. CAMMACK. Gentlemen, may I say this to you? I have been in this business since the first policy was written, I think; and when we started writing group policies, we wrote nonparticipating policies at a fixed rate and we guaranteed that rate for 20 years. Now the plan did not operate, because if we quoted a rate too low, we were

on an unprofitable risk for 20 years; and if we quoted a rate too high, we had to reduce it or it was rewritten in another company; so we changed our plan of operation and said it doesn't much matter what rate you charge. Charge a rate that is enough but not excessive. The cost to the policyholder is going to depend on economy of management and its experience. If we can manage our business economically, then we shall be fair to the policyholder and doing business on a safe basis, and that is the way we operate.

Mr. ARNOLD. And that is the way the public utilities operate, isn't it?

Mr. CAMMACK. I don't know.

Mr. ARNOLD. Yes; they operate so they will give the maximum service and be fair to their investors, which is somewhat similar to the policyholders.

Now I am a little at a loss to understand why it is that you instinctively reject the idea of a combination among public utilities which fixes rates and instinctively say that a combination of insurance companies is on an entirely different basis and they should in the public interest be granted that power.

Mr. CAMMACK. The reason is because I don't think we do fix rates. If any policyholder—I don't care—Schenley Distillers; they have 4,000 employees, and they are in the market——

Mr. ARNOLD (interposing).—Let us not fix it.

Mr. CAMMACK. All right. They are going to buy group insurance, and they are going to pay an annual premium in advance, if you will. It is \$100,000, and it will be a hundred thousand in the Prudential, the Aetna, the Travelers, the Connecticut General, and at the end of the year they may get twenty-five thousand from one company and fifteen thousand from another and twenty from another, and they have all paid a different rate in all of the different companies, and the difference in rate is a difference in the economy of management.

Mr. ARNOLD. I presume that is equally true with public utilities, if they are permitted to have a fair return on investment; and if the rates are too high, the public utilities will be delighted to return their overearnings to the consumers, and yet it would seem curious if we allowed the public utilities to have the sole judgment as to what the rate should be and how much money should be returned. Now, you admit that, don't you? You wouldn't want that situation in public utilities, would you?

Mr. CAMMACK. I don't know about public utilities.

Mr. ARNOLD. No; but would you want it?

Mr. CAMMACK. I am very ignorant on public utilities. It is not that I don't want to answer your question, but I just feel that I am not qualified.

Mr. FRANK. I think that you feel there is a difference in this fact, that you feel that the actuarial data that you have collected has an accuracy about it and that there be a corresponding fact in the utilities. Let us make that assumption. Let us assume that you have accurately reported infallible data. I want to come back to the fact that from that data inferences are drawn as to the appropriate rate, and as you have twice testified there are differences of opinion at times in your group as to the inferences and that the inferences do not have that infallibility that the data itself does.

Now, nevertheless, the superintendent of insurance is not advised of those differences in the inferences but is given the composite judgment representing the majority view and apparently, on the facts as you have presented them, he relies upon that majority inference so that in effect we have these companies who are engaged in selling this insurance, giving the majority judgment, which is not infallible and not as accurate as the data itself, to the superintendent and the superintendent fixing the rates, based upon that inference without scrutiny of the data or going through the reasoning process that you engaged in when you drew that inference. Is that correct?

Mr. CAMMACK. I think that is true.

Mr. GESELL. Now, Mr. Cammack, we have been talking here entirely about group life insurance where the superintendent of insurance has some authority to set a minimum rate. What about group annuities? What about group accident and health? What about group death and dismemberment? There your association fixes uniform initial selling rates with no participation by the insurance company at all, does it not?

Mr. CAMMACK. The association as such does not fix the rates, but we have informal discussions and somebody suggests that they are going to adopt a rate and all the other companies follow, so in a sense they do fix the rate, but I want to again call your attention that these are mere tentative rates and they are adjusted at the end of the year. We have followed—in order to do what has been prescribed by the New York law for life insurance, we have regulated ourselves in a similar way for group disability and group pensions.

Mr. GESELL. Before the New York Insurance Department stepped into this picture at all, you had the rate and that was put into effect under the law, was it not? You also had a group of rules that were in effect before the insurance commissioner came into this picture at all, and you adopted those rules after the law was enacted and the formal association was created.

Let us take a look at those rules, Mr. Cammack. First of all, you have a rule 9-A which says that [reading from "Exhibit No. 658"¹]:

No overhead cost, dividend, or rate reduction should be estimated by size of risk, either directly or indirectly by statement of current cost of operation or otherwise. The only data submitted should be actual past experience on actual cases.

There you have to some extent limited the degree to which the companies in competition for a risk can show comparable experience or make promises with respect to what they will give back from this initial rate which they take in, do you not?

Mr. CAMMACK. I don't think so. I think the best criterion of what you can do in the future is what you have done in the past, and not a mere estimate of what you think you may or hope you may be able to do.

Mr. GESELL. You have another rule that fixes uniform commissions to salesmen. Why should they be uniform?

Mr. CAMMACK. Because it is for the protection of the public.

Mr. GESELL. How?

¹ Subsequently entered, see *infra*, p. 4204.

Mr. CAMMACK. The broker, of course, is interested in the commission that he is going to get for placing a risk. Now if the companies began to compete with one another and get business by paying higher commissions to the brokers, it would run up the expense rate and increase the cost, not only to the employer but to the employees.

Mr. GESELL. Suppose I am selling group insurance and I can pay a commission to my salesmen, and keep within the rates which have been established already, higher than that promulgated by your association. Wouldn't that be to my advantage competitively speaking? Wouldn't I get more business? And how would it hurt the public if I did?

Mr. CAMMACK. I don't understand you. Those are the commissions, rates that the insurance companies pay to the broker who introduces the business. Now if you pay him any more, it is going to cost us that much more to operate.

Mr. ARNOLD. Supposing you paid him less.

Mr. CAMMACK. If we pay him less, why, so much the better.

Mr. ARNOLD. This uniformity is only on top commissions?

Mr. CAMMACK. That is the highest commissions. Some companies pay less.

Mr. GESELL. Isn't it clear, however, that one of the reasons for establishing uniform commission rates is to prevent one company or another from having a competitive advantage by reason of the fact that the brokers will shop around and sell the insurance with the company which has the highest commission rate?

Mr. CAMMACK. That is the reason.

Mr. GESELL. Isn't the result of the commission rule, then, such that it levels off competition and keeps all of the companies on the same plane as far as agents and brokers are concerned?

Mr. CAMMACK. I don't think it has that effect at all. The only effect it has is to enable us to manage our business economically. If we were to pay, say, 2 percent commission—if that is our scale and we were told that the Metropolitan would pay 3, we would be tempted to pay 4.

Mr. GESELL. That isn't the way the actuarial science works, is it?

Mr. CAMMACK. It is the way practical business works.

Mr. ARNOLD. But I thought insurance was simply written on an actuarial basis and if you got beyond the actuarial basis, then you wouldn't accept it. You mean you are subject to temptations to go beyond the actuarial basis?

Mr. CAMMACK. We certainly are.

Mr. ARNOLD. And this is a method of preventing you from yielding to temptation to lose money.

Mr. CAMMACK. In the New York law the maximum rates of commissions for ordinary business are set by statute and that was to prevent the excessive commissions that were paid in former years. Now there has been no statute limiting acquisition costs on group life insurance, but the companies have themselves regulated themselves in that respect and kept down their cost.

Mr. ARNOLD. If you were subject to temptations to go contrary to your actuarial tables in the instance which you now speak of, might it not be that you might be subject to temptations within your own group in submitting these rates, if the temptation were there?

Mr. CAMMACK. I don't quite follow you.

Mr. ARNOLD. You indicated that there was a great deal of pressure and a great deal of temptation not to follow actuarial tables in the event it was to your business advantage to disregard them.

Mr. CAMMACK. You mean pay an excess commission?

Mr. ARNOLD. Well, as an example of where actuarial figures did not control the situation. Now if you are subject to those temptations, why isn't it equally true that if in one of these meetings similar temptations arise by which it is to your advantage not to follow closely the actuarial experience, you might fall in those instances also, mightn't you?

Mr. CAMMACK. You mean we might compile a deliberately false experience? Because my answer would be no.

Mr. ARNOLD. No; in determining the rates which you would charge, the selfish interest of the company would be a large motivating factor as it was possible in public utility rates prior to regulation.

Mr. CAMMACK. No; I don't think so. I think the danger is on a large risk to quote too low a rate and not too high a rate because, of course, we are all eager to write these large risks and the danger is we would cut the rate too low. Now what we want is a reasonable rate which is perhaps a little redundant but not excessive and then adjust the cost at the end of the year.

Mr. ARNOLD. Now I think we are getting in agreement because I had assumed all along that this whole device was a method to remove from the association any temptation to cut the rates. Now that is probably true isn't it?

Mr. CAMMACK. That is true—no, that is not the whole reason, but we do want to avoid simply cutting rates.

Mr. ARNOLD. You think that the insurance company is one of those instances which runs better by a rate fixing agreement than by a competitive arrangement?

Mr. CAMMACK. I don't think we fix our rates. I think the rates are fixed at the end of the year.

Mr. GESELL. Now we are dealing here with group insurance and you sell group insurance, don't you, Mr. Cammack?

Mr. CAMMACK. Yes.

Mr. GESELL. Now if you state in your rules what commission you are going to pay to your salesmen, if you say in your rules how much guarantee you are going to allow him to make with respect to rate, if you very much limit what he can say to the group as to what they may expect back, if you also set up your rules in such a way as to prevent him from taking business from other members in your association, and if you limit your selling procedure from all these various points, the net result of it is to put selling competition on a very narrow basis, is it not?

Mr. CAMMACK. I can't quite agree with this. You mention the fact that we arrange so that the group could not be transferred. I want to say that if an employer has his group insurance with one insurance carrier, it is the easiest thing in the world for him to transfer it to another. Any of the big companies will accept that business. He has simply got to go in and make application and they will be glad to get it. The only rule we have is we won't pay any commission because the acquisition cost in writing that busi-

ness has been incurred once and we feel it should not be incurred twice.

Mr. GESELL. Now, let me see about that. You charge your commission to your group just the same whether you pay it to your agent or not, don't you?

Mr. CAMMACK. We spread our commission.

Mr. GESELL. So that in spite of the fact that this rule prevents the payment of commissions to agents on transferred business, you still charge the company which has transferred the same amount you would ask if you did pay the commission, so you don't lower the price at all, from that point of view.

Mr. CAMMACK. But, Mr. Gesell, if we had the same custom in the group business as we had in compensation, and these group policies were transferred to one company one year and another company the next year and another the third, instead of having an expense of 8 we would have an expense rate of 15 or 20. We don't want that to happen.

Mr. GESELL. The result of it would be that those companies which kept on a sound underwriting basis would persevere and have more business and those companies which permitted large acquisition costs to grow up would lose out and have difficulties in their group business; would it not?

Mr. CAMMACK. I don't know.

Mr. HENDERSON. If I understand your answer, there is quite a range of difference in the actual cost, the expenses of doing business. You say it would run from 7 to 15 percent?

Mr. CAMMACK. I was thinking of some of the companies. I suppose they have an expense rate as high as 15 percent, and I think probably the lowest is about 7 percent.

Mr. HENDERSON. Yours is about 9?

Mr. CAMMACK. I think it is about 9.

Mr. HENDERSON. Well, Mr. Cammack, along the line suggested, perhaps the company that was able to keep its expense rate somewhere near 7 might get the business as against the high cost one with 15 percent. You say that that would be disorganizing.

Mr. CAMMACK. It would be very disorganizing if we paid commissions every time to the broker that he transferred.

Mr. HENDERSON. I do not mean switching. I was talking about the disorganization in the business as a result of one company's having half the expense cost of another company and thereby getting the business. I am trying to get your point of view as to what would be disorganizing about that.

Mr. CAMMACK. There is nothing disorganizing about that.

Mr. HENDERSON. I understood your answer to Mr. Gesell was that it would be very disorganizing. He suggested, did you not, Mr. Gesell, that it might be possible that the low expense company would get a larger part of the underwriting?

Mr. GESELL. I suggested that if these rules and rate activities didn't result in selling of group insurance on the same level for all companies that those companies which kept sound underwriting practices, didn't permit their expenses to run up, would eventually survive, and those which went into unsound practices would be eliminated.

Mr. HENDERSON. Your answer to that—

Mr. CAMMACK. I misunderstood your question. I thought that you said if we paid commissions on transferred business it might result very beneficially because those companies that paid commissions would get a high expense rate and those that didn't would get a low expense rate and it would perhaps be a good thing to pay commissions on that.

Mr. GESELL. One result of this transfer rule, Mr. Cammack, is to keep this business which has been accumulated by the big five or six companies in their hands and prevent it from being taken away from them by some independent company which is out writing insurance at lower rates and is not governed by the restrictions of your association.

Mr. CAMMACK. I really don't think so, Mr. Gesell.

Mr. GESELL. You don't know, do you, that that isn't true?

Mr. CAMMACK. I can't say positively it is not, but it is my impression that it is not so.

Dr. LUBIN. Mr. Cammack, if I am a businessman and my expenses of operation are 7 percent as compared to the expense of operation of my competitor, which, let us say, is 10 percent, do you feel that I should have the right, in order to increase my business, to pay my employees a little bit more than my competitor and in other words be satisfied with a smaller margin than I am getting now? Shouldn't I have that right?

Mr. CAMMACK. Of course in life insurance and group insurance the commission that you pay to an agent is paid by the employer and the employees. It can come from no other source.

Dr. LUBIN. The same is true of any merchant who does business. It is the consumer who has to pay.

Mr. CAMMACK. And I can't imagine anything worse for the business and for the interest of the policyholder than competition in the payment of commission scales.

Dr. LUBIN. But if I can still undersell my competitor and pay a little higher commission scale and still sell my policies at a lower rate in the long run, why shouldn't I have that privilege?

Mr. CAMMACK. Because I don't think that if you pay high commissions you can undersell your competitors.

Dr. LUBIN. It needn't necessarily be high, say a quarter of a percent more than my competitor. Why shouldn't I have that right? If it is going to increase my business and lower my overhead per unit and ultimately give the consumer or purchaser of the policy a lower premium, why shouldn't I have that right?

Mr. CAMMACK. I admit you have the right to do it, but I don't think it is a good thing. As soon as one company pays a higher scale of commissions than another that increased scale of commissions is met by all competitors.

Mr. GESELL. I think we are getting toward the end of the day, Mr. Chairman, and if I could complete one phase of this examination, I think it may shape up somewhat.

The CHAIRMAN. I will cooperate with you in completing it. I will ask the committee to refrain from interrupting your examination until you have finished.

Mr. GESELL. Thank you very much. I am pretty nearly done. Do you recognize those papers that I hand you, a set of the present group life rules which have been promulgated by the association?

Mr. CAMMACK. Yes.

Mr. GESELL. I wish to offer these rules for the record.

The CHAIRMAN. The rules may be received.

(The rules referred to were marked "Exhibit No. 658" and are included in the appendix on p. 4711.)

Mr. GESELL. I want to find out just what the association does about fixing rates for group death and dismemberment insurance, Mr. Cammack. That is not controlled by the superintendent of insurance in any way, is it?

Mr. CAMMACK. No.

Mr. GESELL. The superintendent of insurance has no right to fix rates, minimum or maximum or otherwise, in group death and dismemberment.

Mr. CAMMACK. The procedure is just about the same as it is in group life insurance except that the recommendations which are made on the basis of compiled experience are adopted by the members of the Group Association.

Mr. GESELL. In other words, you don't even have in group death and dismemberment the pretense of a superintendent of insurance having some type of review of what you are doing?

Mr. CAMMACK. No; he doesn't.

Mr. GESELL. You get together, you recommend rates, all the members in the association adopt those rates, and those are the rates that are used in selling death and dismemberment insurance.

Mr. CAMMACK. We make those rates up on our experience.

Mr. GESELL. Do you all agree that the loading should be the same?

Mr. CAMMACK. We have uniform rates.

Mr. GESELL. Yes; that means you all agree that the loading—

Mr. CAMMACK (interposing). That would make the loading the same.

Mr. GESELL. That isn't true, as a practical matter, is it? One company is better managed than another, one company has different factors involved in computing its expenses, and if each of the companies were to sell, using their own loading or experience, the rates would not be uniform, but would be different, would they not?

Mr. CAMMACK. Well, my reply, Mr. Gesell, is again that the rates are adjusted at the end of the first year and the company that has got the lowest expense rate gives a bigger refund.

Mr. GESELL. From the selling point of view, you have uniform rates in the sale of death and dismemberment insurance.

Mr. CAMMACK. Initial rates.

Mr. GESELL. Just how are those activities in fixing uniform rates for death and dismemberment insurance reflected in those minute books? Is it a formal association matter, or is it done more or less on the side by a small informal committee?

Mr. CAMMACK. They are not in the minute books. There will be a committee on death and dismemberment that will examine the experience and recommend the rates. Now the members are not bound by those rates. I suppose that we can best describe it as a gentlemen's agreement. If a member does not use those rates, the Group Association has no complaint in the matter.

Mr. HENDERSON. Do you mean no complaint or no recourse?

Mr. CAMMACK. No recourse.

Mr. HENDERSON. It has complaint, I would gather from the testimony of the previous witness, in which you were a little bit involved as a bad boy.¹ Am I not correct in that? It is not complaint you are talking about. It has no legal recourse. It has recourses that are either extra-legal or non-legal.

Mr. CAMMACK. No.

Mr. GESELL. But as a practical matter all of the companies do follow these uniform rates, do they not?

Mr. CAMMACK. That is right.

Mr. GESELL. Has there been some effort to conceal the activities of fixing those uniform rates? Am I to gather that from the fact that there is no record of it in those minute books?

Mr. CAMMACK. The constitution of the association provides that we cannot fix rates, so that it has been done informally through committees that have recommended rates on the basis of the experience compiled.

Mr. GESELL. You were afraid your rate-fixing activities would be unconstitutional, is that it, so you kept them on the side.

Mr. CAMMACK. I wouldn't say that. I think some companies feel that it was perhaps dangerous.

Mr. GESELL. Dangerous from what point of view?

Mr. CAMMACK. For myself, I could never see there was anything illegal in promulgating rates.

Mr. GESELL. What did they think was dangerous about it?

Mr. CAMMACK. I can't tell you, Mr. Gesell, because I was not one of them.

Mr. ARNOLD. Was the specter of the antitrust laws raised?

Mr. CAMMACK. I think so, that is right.

Mr. ARNOLD. And that while you don't think it is dangerous, still there is no object in sticking your neck out, and therefore it is a good thing to put these in an informal meeting.

Mr. CAMMACK. Personally I didn't think we were violating any of the laws.

Mr. ARNOLD. But the specter appeared at the feast.

Mr. CAMMACK. That is right.

The CHAIRMAN. Let me interrupt. Let's follow Mr. Gesell's recommendation and permit him to conclude his questioning.

Mr. GESELL. I am almost through, sir, I thank you. I wish to read from the minutes of the meeting of the committee of June 26, 1926, held at the offices of the Connecticut General Life Insurance Co., attended by Aetna, Connecticut, and Metropolitan:

All questions voted on by companies. Moved, seconded, and carried that the committee draw up rules covering the proper subjects, excluding rates, and have a branch of the Group Association with a subchairman and a subsecretary handle all matters pertaining to accident and health insurance, including death and dismemberment insurance, the subsection to have the right to elect members not writing group life insurance. Under the discussion it was brought out that Mr. Brosmith thought there might be a very remote legal objection to including rates in rules, but the fact that they have the same rates now and that they have a rate experience bureau in compensation insurance made him feel it could be done properly. Mr. Bassford said the Metro-

¹ See *supra*, p. 4158.

politan could not consider entering if rates were discussed, for some commissioner asks a question every year about collaborating with any other company on the subject of rates. It was felt that the subject of rates might be handled by a temporary committee which might suggest rates and then dissolve.

Has that been the procedure, Mr. Cammack, to set up this small committee, have them recommend rates, and have them disappear from the scene and have no records of their recommendations at all contained in the minute books?

Mr. CAMMACK. No, sir; we have had these standing committees. The standing committees have informally recommended rates, and they have been adopted.

Mr. GESELL. Has that same procedure been adopted in the handling of group accident and health insurance?

Mr. CAMMACK. Yes.

Mr. GESELL. Again the companies have adopted uniform rates after the recommendation has been made by the committee?

Mr. CAMMACK. That is so.

Mr. GESELL. And again the superintendent of insurance, or no official body, has anything to do, from a supervisory point of view, in approving the processes by which those uniform rates are reached.

Mr. CAMMACK. Yes, sir.

Mr. GESELL. Likewise, in the case of group annuities, do the companies writing group annuities get together, pool their experience, reach a program for uniform rates, and follow those uniform rates?

Mr. CAMMACK. Yes, sir; they have pooled their experience from time to time. Of course the principal factor in computing your group annuities is the interest rate you expect to be able to invest your premiums at.

Mr. GESELL. But the basic rate in the sale of group annuities is a uniform rate, is it not?

Mr. CAMMACK. I don't think it is entirely uniform and it has not always been uniform. I think it is uniform for all the American companies.

Mr. GESELL. All the American companies writing group annuity business are members of the Group Association, are they not?

Mr. CAMMACK. I couldn't answer that question.

Mr. GESELL. I would like to offer for the record a schedule entitled "Total Group Annuity Business in Force, End of Year, 1934-38." This schedule has been prepared from Spectator's Insurance Year-book, Best Life Reports, New York Reports, and the annual statements filed with the insurance departments, and shows for each year from '34 to '38 the number of contracts, the number of certificates, and the annual income in dollars of each of the association companies not members of the association which have any group annuity business in force on their books.

I may say that from this schedule it appears that from 1936 to 1938 there is no record of any new group annuity business being issued by a nonassociation company.

The CHAIRMAN. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 659" and is included in the appendix on p. 4716.)

Mr. GESELL. Am I correct in stating that for group accident and health, group death and dismemberment, and group annuities, underwriting rules in general similar to the underwriting rules established in the writing of group life insurance have always been promulgated and are followed by the companies?

Mr. CAMMACK. Yes.

Mr. GESELL. And the same rules apply with respect to those rules, namely, that any dissenting company can veto?

Mr. CAMMACK. Yes; they are governed by the constitution.

Mr. GESELL. Now just one further question, Mr. Cammack. Has there been an effort to achieve uniform policy forms for the companies writing group insurance through the medium of this association?

Mr. CAMMACK. I would say not. Of course, the provisions of the policy must be similar in many respects by reason of the fact that they have similar underwriting rules in some respects, but we have no uniform contract.

Mr. GESELL. My question was prompted by a letter written by Mr. Beers, of the Aetna, in which he refers to the Texas Corporation, and he says:

I see that the Travelers have given the above a copy of the contract. I am upset at this and am telling them so. I think that both you and we have at all times been ready to cooperate to discuss unsettled matters promptly and that all the delay has been on the part of the Travelers. I feel that it is very unwise to submit to an employer a form of contract on which the insurance companies are not yet agreed.

Mr. CAMMACK. Mr. Gesell, the Texas Corporation took out a group annuity policy on their employees. They decided they would like to have three insurance carriers, namely, the Travelers, the Aetna, and the Equitable, and one-third of the plan would be carried in each company. Each company would hold one-third of the reserves, and in a case like that, of course, the policyholder desires to have the same contract in each company. There was no competition between the companies; it was awarded to them, each to have one-third of the business, and it is highly desirable, of course, and in the policyholder's interest, that they should have the same wording, the same contract.

Mr. GESELL. Naturally. And you say so far as the contracts where competition does exist are concerned, there is no uniformity in the policies except where that uniformity results by reason of the application of the various rules of the association to the policy?

Mr. CAMMACK. And by reason of the laws in the various States, of course, that require certain standard provisions.

Mr. GESELL. By and large, they are pretty much the same.

Mr. CAMMACK. They look very much alike. We have no standard forms agreed to by the association.

Mr. GESELL. That completes my examination today, Mr. Senator.

Mr. ARNOLD. Mr. Cammack, there is a good deal of competitive spirit in this industry which is being curbed by this association, isn't there? I am not talking about whether it should be or should not be curbed, but that is a statement of fact, isn't it?

Mr. CAMMACK. There is some.

Mr. ARNOLD. And you think now that that is for the good of the industry?

Mr. CAMMACK. I am convinced of it.

Mr. ARNOLD. At one time you didn't think so; isn't that so? I refresh your recollection by reading one of the exhibits [reading from "Exhibit No. 647"]:

In the course of the discussion a large number of cases where Mr. Cammack had strained the rules for his company's advantage were brought out—

and then I understand that you were brought back into line, so that at one time you were somewhat skeptical about this curbing of that sort of competition.

Mr. CAMMACK. I don't remember that particular incident, but it would appear to me that under my interpretation of the rules it was perfectly proper for us, and we were not breaking any rule if we gave our policyholder clerical assistance, and I appear to have done so. The rules were altered so as not to allow it, and I believe it was proper then.

Mr. ARNOLD. And therefore now you think, after having been chastised at this meeting, that it is a good thing that that competitive spirit which you evidenced in 1924 has been curbed?

Mr. CAMMACK. I think it is probably a good thing. I don't think it costs the policyholder anything. If we spend less money in administering his business we are enabled to reduce his rate by just so much; it makes no difference whether he spends it and we return it to him, or whether we spend it direct.

Mr. ARNOLD. But at that particular meeting you took a rather heated position to the contrary, didn't you?

Mr. CAMMACK. I can't remember the meeting. I couldn't testify as to that.

Mr. ARNOLD. The records appear to show that, and you wouldn't deny it, would you?

Mr. CAMMACK. I don't deny anything that Mr. Flynn writes.

Mr. HENDERSON. Mr. Cammack, you say it doesn't make any difference as to the getting and the refunding. With these various uniformities by which the area of competition is considerably narrowed and in which pretty generally the initial rate is just the same it certainly doesn't, because in that initial rate there is really an average struck. That is what happens with the composite experience, isn't it, that there is an average struck? But in order to have that average, as we have said before, there are some companies that might have 7 percent of expense and some that might have 15. It would make a difference, then, wouldn't it, as to the taking and refunding if it were done on the basis of 7 percent or 15 percent?

Mr. CAMMACK. I think what makes the difference is the relative economy of management of the two companies. I don't think it is the initial rate the policyholder pays.

Mr. HENDERSON. That is just my point. With competition decidedly narrowed the policyholders are not getting the benefit on account of the uniformity of the initial rates, that is, when the business is placed.

Mr. CAMMACK. It would seem to me that competition is just as keen as ever it was, even in the days when there were—

Mr. HENDERSON (interposing). Keen on something else than initial rates.

Mr. CAMMACK. It is keen on net cost.

Mr. HENDERSON. You would have a little difficulty in convincing people that unless there is competition in rates there is real competition, wouldn't you?

Mr. CAMMACK. I think there is competition in rates, because the rate is not determined until the end of the first year.

Mr. HENDERSON. But business is sold at the beginning of the year.

Mr. CAMMACK. The rate isn't determined until the end of the year. It is sold at the beginning of the year, but it is sold on what the net rate is going to be.

Mr. HENDERSON. It is a sort of delayed competition in a very narrow and circumscribed field.

Mr. CAMMACK. I think it is very active.

Mr. HENDERSON. Of course, my experience in N. R. A. with some 500 codes, indicated that any deviation or any price cutting was thought to be evidence of very severe competition, and that is evidently what is running through your mind, isn't it?

Mr. CAMMACK. The competition is on the net rate that the policyholder will have to pay at the end of the first and subsequent years.

Mr. ARNOLD. You did think, however, that you were getting an advantage by your conduct in 1924, which was subsequently stopped, didn't you?

Mr. CAMMACK. Yes, sir.

Mr. ARNOLD. And that kind of competition is competition that hurts, as appears from the meeting, isn't it?

Mr. CAMMACK. I don't know how important that was.

Mr. ARNOLD. It hurt. It shocked the representatives of John Hancock.

Mr. HENDERSON. There was a difference there that took some business. Wasn't that it? Isn't that the thing that determines whether competition exists?

Mr. CAMMACK. I am sorry I can't testify about that. I don't know the case; I don't know whether we really wrote business under that plan, or whether it was just hearsay.

Mr. FRANK. The letter shows you did, and it says the measures which were necessary to whip the matter into shape, which included, according to the letter, your being badly chastised [reading from "Exhibit No. 647"]:

left some of the weaker members, such as the Connecticut General and Missouri State, at the point where they were hinting at getting out of the conference in order to enjoy cut-rate opportunities.

So apparently it was assumed that your activities prior to this meeting enabled your company to enjoy some opportunities.

Mr. CAMMACK. Mr. Frank, I would be glad—if I had known I was going to be questioned on that latter—to refresh my memory by a review of that correspondence. In my mind I don't recollect it at all.

The CHAIRMAN. The witness may believe that Mr. Flynn was just writing a letter to his president.

Mr. FRANK. Mr. Cammack, I am puzzled about one thing. You say the competition comes in the net amount determined at the end of the year, but that, at the time a company is soliciting insurance the net amount is not yet known to the purchaser, and no matter what company he goes to, he will be met with the same initial rate, so that

he can't know, in his own mind, at the time he buys, whether he will do better with one company than another. Is that correct?

Mr. CAMMACK. That is true; he doesn't know.

Mr. FRANK. Then there can't be much competition at the time of purchase when he cannot ascertain until a year later whether he is getting an advantage by going to one company rather than another.

Mr. CAMMACK. I think there is keen competition, because your buyer demands illustrations from every company that is competing for the business of what that company has been able to do for other policyholders of like size in the same industry, and the company that can show the best record has the best chance of writing the business.

Mr. FRANK. Then why don't you let that differentiation between companies manifest itself at the beginning of the year in a difference of rate based upon the experience, as is done in other competitive industries?

Mr. CAMMACK. I am afraid that you would have uniform rates then, because if one company reduced its rate 10 percent all the other companies would do likewise.

Mr. GESELL. What about the actuaries? Wouldn't they stop that? Isn't that what the actuary is meant to do?

Mr. CAMMACK. No; I don't think so. I think the actuary is one to determine a rate that was adequate for most risks, that would be inadequate for some, that was not excessive, and that should be adjusted at the end of the first year so that equity could be given to the policyholder.

The CHAIRMAN. Are there any other questions?

Dr. LUBIN. I wanted to ask, Mr. Cammack, with regard to these rules and regulations for group life, formulated in June 1938,¹ who formulated these rules, a subcommittee of the association?

Mr. CAMMACK. My memory won't allow me to answer that question.

Dr. LUBIN. Are you personally acquainted with the drafting of these rules?

Mr. CAMMACK. I was probably on the committee that drafted them. Of course, we had had this informal committee of actuaries, and doubtless these rules were based on the old rules of the old committee, with some amendments. I am speaking from recollection only.

Dr. LUBIN. Do you remember whether the earlier rules defined trade-unions in the same terms as they are defined in this bulletin, page 6 (a)?²

Mr. CAMMACK. I think the definition of trade-unions is a new definition. I don't think that was in the old rules.

Dr. LUBIN. Thank you.

The CHAIRMAN. Congressman Williams, do you have any questions? Representative WILLIAMS. No.

The CHAIRMAN. Mr. Cammack, when you referred to the existence of competition, do you mean competition among the association companies or competition of the association companies with those which are not association companies?

¹ See "Exhibit No. 658," appendix, p. 4711.

² Ibid.

Mr. CAMMACK. I refer particularly to competition among the members of the association, though of course we have competition with companies that are not members.

The CHAIRMAN. On what subjects, or in what fields, does this competition exist among the association companies?

Mr. CAMMACK. The competition is in regard to net cost, and that is the first and most important point, as to what our refunds or your dividend is going to be. The next is the point of service.

The CHAIRMAN. How does competition exist with respect to net cost when it appears from the constitution of the association that the third objective of the association is [reading from "Exhibit No. 651"]:

to promote economy and reduce expense in the matter of general administration by an interchange of views on practice among insurance companies which issue contracts of group insurance.

Which I take to mean that one of the objectives of the association is to effect some degree of uniformity in all of these administrative matters?

Mr. CAMMACK. We have some uniformity, but of course——

The CHAIRMAN (interposing). Isn't that the purpose of your association, to effect that uniformity?

Mr. CAMMACK. We don't try to effect uniformity in net cost, Senator. We try to effect uniformity in certain underwriting rules and practices.

The CHAIRMAN. Does the fixing of the commission enter into net cost?

Mr. CAMMACK. Very much so. It is one of the most important factors in net cost.

The CHAIRMAN. Your association has promulgated a rule for effecting uniformity with respect to payment of commissions.¹

Mr. CAMMACK. Yes, sir.

The CHAIRMAN. And it has also promulgated a rule with respect to the clerical aid to employers.²

(The witness nodded his head in the affirmative.)

The CHAIRMAN. All designed to effect uniformity of cost.

Mr. CAMMACK. That is so. Nevertheless, in the overhead and general administration of the business some companies are more efficient and more economical than others. That will be always so.

The CHAIRMAN. Well now, just in what respects have you failed to bring items within the scope of objective No. 3 of your constitution?³ [Reading:]

The objects of this association shall be (1) to promote the welfare of holders of group policies, (2) to advance the interests of group insurance, (3) to promote economy and reduce expense in the matter of general administration by an interchange of views on practice among insurance companies which issue contracts of group insurance.

Mr. CAMMACK. That is so, sir, and I think we have achieved promoting economy and reducing expense.

The CHAIRMAN. Now, on what items of administrative cost have you failed to effect the objective of this association, which was to bring about a degree of uniformity?

¹ See "Exhibit No. 658," appendix, p. 4711

² Ibid.

³ "Exhibit No. 651," appendix, p. 4703.

Mr. CAMMACK. We haven't brought the expense laid down in all the companies to the lowest possible level, and some companies are more economically managed than others, and I think that will always be so. I do think, as a whole, the association has been able to effect economies in the business.

The CHAIRMAN. In other words, so far as possible the purpose of the association was to bring about uniformity in these items which go to make up the administrative cost?

Mr. CAMMACK. Yes, but there is no uniformity, of course, in the general overhead, the salaries in the home offices, and so forth. Some companies spend more than others.

The CHAIRMAN. Then with respect to the overhead in the home office, the competitive differences appear.

Mr. CAMMACK. That is generally so.

The CHAIRMAN. Any other items?

Mr. CAMMACK. Well, there are some expenses in the field, too, overhead in the field. The companies have branch offices.

The CHAIRMAN. To what do you attribute the fact which appears from the table presented by Mr. Gesell as compiled from the Spectator Insurance Year Book¹ that in 1926 when there were 81 companies writing group insurance and 9 of them were associated, those 9 companies had 95.2 percent of the insurance in force attributable to Group Association companies of the insurance in force; and in 1937 when there were 19 companies associated out of 105 all told, the associated companies had 94.3 percent of the total; a percentage which is exhibited in each succeeding year from 1926 to 1937; the lowest apparently being 91.9 percent in 1930 and the highest 95.2 percent in 1926. My question was, To what do you attribute the fact that the associated companies which have effected this constitution and have operated under this constitution, have throughout the period controlled over 92 percent of the entire group insurance in the country?

Mr. CAMMACK. Well, of course, you must remember, Senator, that all the large companies writing group insurance had been members of the association; it would indicate that these companies who were not members of the association and who do not follow the rules don't obtain a great competitive advantage. In other words, our rules impose no hardship in getting business.

The CHAIRMAN. Would it indicate the reverse, that the associated companies do obtain a great competitive advantage over those which are not in the association?

Mr. CAMMACK. I don't see that they attain any competitive advantage. They are bound by rules where others are bound by no rules.

Mr. GESELL. May I ask one question here, please?

The CHAIRMAN. Certainly.

Mr. GESELL. Are the rules applicable when group insurance is sold by an association company in competition with a nonassociation company?

Mr. CAMMACK. Yes, sir.

Mr. GESELL. Do you still follow exactly the same rules with respect to quoting possibly future experience, for example?

Mr. CAMMACK. Let me just—I don't know.

¹ See "Exhibit No. 656," appendix, p. 4710.

Mr. GESELL. Yes; I wish you would explain that fully.

Mr. CAMMACK. I don't know what the practices of the companies are, but take the rules where we pay no commission on transferred cases. I believe the rules do not bind a member of the association to pay no commission on a case transferred from a nonmember company. I think some of the companies refuse to pay a commission. I don't know what the practice is, Mr. Gesell.

Mr. GESELL. Is it a general understanding that the association companies are not bound by these rules in competition with nonassociation companies?

Mr. CAMMACK. Oh, no, no. These rules—if we have competition from a nonassociation company, we are still bound by these rules. For example, the limit of insurance we might put on a life in a certain case is \$5,000. The competitive company may offer 10 thousand. That would not be met; we are not allowed to do it under the rules.

The CHAIRMAN. There are 22 rules in this list which has been presented here.¹ How uniformly have they been followed by the associated companies?

Mr. CAMMACK. I should say they have been followed in a very substantial way.

The CHAIRMAN. Are there any substantial items of insurance procedure, aside from this administration of the overhead and home office, upon which there is no agreement among associated companies?

Mr. CAMMACK. It is a little hard to answer that question.

The CHAIRMAN. Let me put it this way: Do these rules cover substantially the field of group-insurance activity?

Mr. CAMMACK. I think so.

The CHAIRMAN. There is not much left out of the rules, in other words?

Mr. CAMMACK. No; I think they are quite complete.

The CHAIRMAN. So there is little opportunity for individual company action, if the rules are followed?

Mr. CAMMACK. Oh, the companies use a good deal of judgment. Of course, sometimes the business we can write under our rules our company doesn't care to write; other companies think the business is good and will write it.

The CHAIRMAN. You spoke a little while ago about the informal committees which have fixed the rates or determined the rates of procedure of the legality of which you had no doubt, but of the legality of which others did have a doubt. Were those recommendations with respect to rates made by the actuaries?

Mr. CAMMACK. Practically so. The members of the committees that considered those matters are usually actuaries of the companies. There may be some exceptions, but that is generally so.

The CHAIRMAN. Are the recommendations and judgments of the actuaries subject to review by executives who are not actuaries?

Mr. CAMMACK. Yes.

The CHAIRMAN. Do the executives sometimes change the decision of the actuaries with respect to matters of this kind?

Mr. CAMMACK. In respect to matters of rates?

The CHAIRMAN. Yes; and these other matters.

¹ See "Exhibit No. 658," appendix, p. 4711.

Mr. CAMMACK. Oh, yes; the executives, of course, have the executive authority. The actuary may be the executive.

The CHAIRMAN. The first objective of the association was to promote the welfare of holders of group policies.¹ Do the holders of the policies have any voice in their own protection?

Mr. CAMMACK. The holder of the group policy, of course, is the employer.

The CHAIRMAN. That is right. Does he have any voice in the deliberations of the association?

Mr. CAMMACK. Oh, none.

The CHAIRMAN. So that his protection all depends upon the judgment of the association?

Mr. CAMMACK. Yes.

The CHAIRMAN. What is good for him is what you decide to be good for him.

Mr. CAMMACK. That is so.

The CHAIRMAN. No. 2, to advance the interest in group insurance.² Just what does that mean?

Mr. CAMMACK. Well, I think that means to promote it and develop it on sound underwriting lines.

The CHAIRMAN. From the point of view of the company or of the general public?

Mr. CAMMACK. Of all three.

The CHAIRMAN. And again according to the judgment of the association.

Mr. CAMMACK. That is so.

The CHAIRMAN. We have discussed No. 3 at length. No. 4, to represent the members of the association in matters pertaining to or which may affect group insurance before the insurance departments and other public and quasi public official bodies.³ I observe that the plural is used there with respect to departments and quasi public official bodies. Do I understand that to mean that one of the purposes of the association is to represent its members before State insurance commissioners wherever the Group Association companies operate?

Mr. CAMMACK. Yes.

The CHAIRMAN. In other words, the business of the association is more than a matter of State importance but is a matter of national importance, and this organization of all the companies was formed for the purpose of properly representing them according to their point of view before the various commissions which have been set up by the respective States for the protection of the public interest.

Mr. CAMMACK. That was one of the purposes of the association.

The CHAIRMAN. Fifth, to collect and analyze the group experience of the members of the association—with the qualification—but nothing in this constitution or any rule adopted subordinate thereto shall be held to authorize the making or promulgation of premium rates.⁴ That qualification, as I gather from your testimony, was made more or less of a dead letter by the creation of the temporary committee which informally fixes the rates.

¹ See "Exhibit No. 651," appendix, p. 4703.

² Ibid.

³ Ibid.

⁴ Ibid.

Mr. CAMMACK. That is so except that the companies are not bound by the rates. I think I can describe it best by saying that it is a gentleman's understanding.

The CHAIRMAN. A gentleman's agreement, but have you any knowledge of any instance in which a gentleman did not follow the agreement?

Mr. CAMMACK. On these rates?

The CHAIRMAN. Or on any of the matters which were questionable.

Mr. CAMMACK. I don't think I can think of any one, but, you see, we are all governed by the New York law.

Mr. FRANK. On certain matters?

Mr. CAMMACK. On the life.

The CHAIRMAN. Any other questions?

Mr. FRANK. Yes; I would like to go over one matter. I confess I have been very stupid in following you on one item. As I understood it, you said that if at the beginning of a policy, at the time of its purchase, if there were to be competition based upon the superior skill of one company as against another, its economy of management, the result would be undesirable from your point of view because it would bring rates down to the level of the lowest-cost company. That is, the competition—if one company as against another offered a lower initial rate based upon its lower cost—would tend to bring them all down to that rate, and some of them couldn't afford to do so. That is what I gathered from what you said.

Mr. FRANK. You say that was undesirable; nevertheless, you said there was keen competition based upon the fact of the economies resulting from the lower net cost at the end of the year. Well, if that competition is effective because of the reduced net cost at the end of the year, so that one company with a lower cost as a result of that competition gets more business than another, why does that not then have the same result even though the competition becomes manifest only at the end of the year? Why doesn't that produce a lowering of the rates down to the level of the most efficient, lowest-cost company?

Mr. CAMMACK. There is a danger of the company that is not the most economically managed cutting the rate to meet the low-rate company below what it can afford. Now, I think the important thing is, and I have said it before, to charge adequate rates, rates that are not excessive. Now, that will mean that they are a little redundant, and then deal equitably with your policyholders by making such refund on dividends at the end of the year that you are able to do.

Mr. FRANK. But if competition is effective by virtue of what occurs at the end of the year—anticipated as you indicated by the buyer at the beginning of the year, because of his examination of previous experience—why doesn't that competition have the tendency to cause returns to the policyholder at the end of the year in excess of what the experience of the company justifies, so as to bring about just the same consequences, which you consider evil, as would result from the initial rate?

Mr. CAMMACK. I think when the policy is written and been in effect a year the danger of paying back too much to your policyholder is less than the danger of quoting a rate that is too low before you have written the risk.

Mr. FRANK. Yes; but if the competition results from the knowledge in advance of the initial period, knowledge on the part of the purchaser based upon his examination of the various companies as to what will happen to him at the end of the year, if that is true, then why doesn't that have the same effect on all of the companies, and why do they then not, by what they do yearly in the way of returns of part of the gross premiums, meet the competition, one of the other, just as exactly as if they initially made their rates different? As I understand it, you say the competition is just the same. Well, if it is just the same, why bother to go through the rigamarole by having uniformity which ends up in lack of uniformity at the end of the year, a lack of uniformity which you say is known to the buyer and induces him to purchase from one company instead of another?

Mr. CAMMACK. Of course, one of the difficulties there is you don't know what its rates should be when you underwrite the risk. Now you can make a guess at it and your guess may be too high or too low. What you should do is to charge a rate that in all probability will be adequate and then reduce it on the basis of the experience under the risk. Now you can't reduce it before you have got any experience under it because you don't know what the experience is going to be.

Mr. HENDERSON. But the competition is a little bit different.

Mr. CAMMACK. It is a little bit different and a little sounder, I think.

Mr. HENDERSON. We get it. It doesn't seem to act in the way in which competition, in terms of the American conception of competition, is expected to, however. It doesn't seem to influence the transfer of business.

Dr. LUBIN. Do you feel that any businessman knows at the beginning of the year just how he is going to come out at the end?

Mr. CAMMACK. I don't think so.

Mr. HENDERSON. There is very little risk taken in this method. Isn't that it?

Mr. CAMMACK. Very little risk to the insurance company?

Mr. HENDERSON. Yes.

Mr. CAMMACK. That is so. But in this business the policies are taken out, they are renewed year after year for 20 or 30 years.

Mr. HENDERSON. You said you can't tell what it is going to be until the end of the year, until you have had the experience. You know pretty well, don't you, that is, if your actuarial tables—

Mr. CAMMACK (interposing). Our actuarial tables won't tell how many deaths you are going to have.

Mr. HENDERSON. I feel we dealt a little unfairly with that distinction, actuarially and mathematically. But you do know pretty well, don't you? Put it this way, Mr. Cammack. Your company knows pretty well as an over-all matter what its charges and costs and out-payments are going to be, and if you decided to go into price competition with the initial rate, you could make it pretty lively for some of the higher cost companies, couldn't you? I gather you think it would be unsound, but there would be a greater degree of competition, would there not, and it would be competition more in terms of industrial competition.

Mr. CAMMACK. Of course there would be, but that competition would be met by all the other companies in the field, and the net cost to the policyholders wouldn't be any lower than it is today.

Mr. HENDERSON. But it is assumed in industrial competition where the prices are not delayed for a year on the terms of any agreement that the necessity for taking a risk, the necessity for coming close to a margin, does add more to the reduction in cost, to the efficiency, and to lowered prices than this coverage that you have against these problematical risks.

Mr. CAMMACK. I don't think you can draw any parallel between the cost of a group life policy and the cost of putting up a building, because the cost of putting up the building is fixed by contract. Now, our cost is not fixed until the end of the year.

Mr. HENDERSON. Let's not take the cost of putting up a building; let's take something that is competitive in price. What you are saying is that there is a difference between the way you do business and the way a competitive price is arrived at in industry. Isn't that what you are saying?

Mr. CAMMACK. Well, the fundamental difference is that we do not determine our price until the end of the year. I keep repeating that, but I must because that is the fundamental difference.

Mr. HENDERSON. I keep repeating that that is not competition within the terms of understanding of the American people.

Mr. CAMMACK. I think that the object of competition is to protect the public from exorbitant prices.

Mr. HENDERSON. That is right, and the public expects that the competition will take place when a thing is bought.

Mr. CAMMACK. I maintain that our plan of rating group insurance has resulted in exceedingly low expense rates and in exceedingly low net cost to the policyholder.

Mr. HENDERSON. Your guess is that it is a lower cost than would result if there were competition at the initial rate line.

Mr. CAMMACK. I think so.

Mr. HENDERSON. But you have nothing on which to gage that. That is a personal opinion.

Mr. CAMMACK. It is a personal opinion because no one can tell.

Mr. FRANK. So you have deviated from the normal mode of competition and you conjecture that it is better than the normal mode of competition, but you are unable to establish that.

Mr. CAMMACK. Well, my memory will go back when we had no predetermined rates, and the companies would quote any rate.

Mr. HENDERSON. That wasn't so long a period.

Mr. CAMMACK. It was over a period of some years, and I tell you that this plan works much better, that the cost to the policyholder is lower.

Mr. FRANK. May I ask whether there is anything in the law or rules of your association which prevents you from returning to the policyholder at the end of the year a larger sum than the amount of your savings? Can the net cost be fixed arbitrarily?

Mr. CAMMACK. The law says that the refund must be based upon mortality experience, or some such wording. I don't think we can make an arbitrary refund on what is earned.

Mr. FRANK. In part you said that the competitive factor, as I understand it, at the end of the year is the net cost, so that if two companies are writing identical insurance, the mortality table cannot be the controlling factor because that is assumed to be identical; is that correct?

Mr. CAMMACK. Yes.

Mr. FRANK. Therefore the difference must be, as you have several times indicated, in the efficiency of your operations. Very well; now the amount that is returned on the basis of the difference in efficiency between two companies—can that be arbitrarily determined by a company?

Mr. CAMMACK. No. It is determined by formula. I have known group life cases written where, we will say, every employee is insured for \$2,000, and he is insured for \$1,000 in one company and \$1,000 in another, and they pay the same initial rate, and when you come down to the end of the year they find they have paid a different rate because they get different refunds in the two companies. You can make an easy comparison there.

Mr. FRANK. If company A refunded X dollars and company B refunded X plus Y dollars, who determines whether company B shall add Y to the amount of the refund?

Mr. CAMMACK. The dividend formula or the rate-reduction formula of these companies is determined upon a formula.

Mr. HENDERSON. Who determines the formula?

Mr. CAMMACK. Well, that is probably put in the hands of the actuary.

Mr. FRANK. Of the particular company.

Mr. CAMMACK. Yes.

Mr. FRANK. That is not uniformly agreed upon?

Mr. CAMMACK. Oh, no.

Mr. FRANK. If competition results from the amount of the refund and if each company can refund what it pleases without regard to law or any agreement among the members of the association, and if the amount of the refund determines whether a person will purchase insurance from company A or company B, then is there not, according to you, just as much likelihood of injury to the public, to the insurance company, and to the insured from making those refunds too great? Isn't the possible injury just the same as would result from making the initial price too low?

Mr. CAMMACK. No, sir. Look at the operations of your group department at the end of the year and you find out how much money you make. You are not going to refund more than you made. You have to put some in a contingent reserve and the balance you refund, and your actuary determines upon the formula to equitably divide that amongst the policyholders.

Mr. FRANK. But that is determined by the company itself.

Mr. CAMMACK. Yes, sir.

Mr. FRANK. You said before if you had competition in the initial rate there would be danger, that if one company being a lower cost company, reduced its rate to correspond to what it anticipated would be its lower cost, another company would come down to that level even though it could not afford to do so.

Mr. CAMMACK. I said there would be temptation.

Mr. FRANK. Why doesn't the same temptation exist at the end of the year on the part of the higher cost company to refund more than its actuaries would tell it it should refund?

Mr. CAMMACK. Because at the end of the year I don't think there is any company would make in total refunds more than its total earnings in the department.

Mr. FRANK. Even though it thought it could get more customers by doing so?

Mr. CAMMACK. Oh, yes; I don't think it would.

Mr. FRANK. Why would they do so at the beginning of the year?

Mr. CAMMACK. There is the hope that you are going to have a good experience. At the end of the year you know.

Mr. FRANK. Yes; but if they knew at the beginning of the year, from their past experience, that their cost was 15 percent and the other company's was 7 percent, would it be likely that they would think that in 1 year much difference would result?

Mr. CAMMACK. Well, it is not only the cost of operating the business, it is the mortality experience; you don't know what death rate you are going to have.

Mr. FRANK. But the difference in refund is not based on the mortality experience, as I understand it.

Mr. CAMMACK. No; the mortality experience—

Mr. FRANK (interposing). Therefore we can throw that out in both instances, initially and at the end of the year. That is a red herring as far as this discussion is concerned, isn't it, really?

Mr. GESELL. By the way, who gets these refunds, the employer or the employee?

Mr. CAMMACK. The employer gets them to reduce his costs.

Mr. GESELL. So that your initial rate does affect what these 9,000,000 working people have to pay for their group insurance.

Mr. CAMMACK. Of course, if the refund is greater than what the employers pay, then the balance of it goes to the employee.

Mr. GESELL. But he has first call.

Mr. CAMMACK. He has first call.

The CHAIRMAN. Mr. Cammack, the whole discussion this afternoon, all the questions which have been put to you, seem to have been based upon the assumption that a competitive system is better than a system based upon agreement among competitors. Do you think that assumption is a correct one?

Mr. CAMMACK. It is very hard for me to answer that question, Senator, because I still believe that we have got the competitive system.

The CHAIRMAN. Of course, the purpose of the association was to eliminate at least certain fields of competition.

Mr. CAMMACK. To eliminate certain possible abuses in the business.

The CHAIRMAN. Well, of course, we can use a euphonious phrase or use one which might be "rough," to use the word that appeared in the memorandum which detailed the experiences.¹ The question, however, is whether or not the association has not been formed for the express purpose of eliminating actual competition in certain lines, as, for example, in underwriting, and in the rates of commission, two items which were specifically mentioned.

¹ See "Exhibit No. 647," appendix, p. 4701.

Mr. CAMMACK. It has; that is right.

The CHAIRMAN. Now competition has been eliminated in those two items.

Mr. CAMMACK. Absolutely.

The CHAIRMAN. And you think that is a desirable thing to do?

Mr. CAMMACK. I think it very sound.

The CHAIRMAN. So then I ask you, in your opinion, is the competitive system superior to a system of organized agreement among competitors as to what rates and policies shall be?

Mr. CAMMACK. I believe in organized agreement up to an extent, but not to the elimination of competition. I will not agree that competition should be eliminated.

The CHAIRMAN. Now, then, what you are saying, in other words, is that you believe in organized activity to eliminate competition up to a certain extent, but not to eliminate all competition.

Mr. CAMMACK. In certain respects, I would say yes.

The CHAIRMAN. What elements of competition do you say from your experience as an actuary and an expert in insurance may properly be eliminated from your insurance field?

Mr. CAMMACK. I think that is illustrated in our underwriting rules.¹

The CHAIRMAN. Before you answer, let me say this: I recognize the fact that witnesses who come before this committee and who are interrogated with respect to their actions and the action of their companies in relation to the antitrust laws are naturally fearful of what inferences may be drawn from their replies. Now from my point of view I am not concerned about that at all, and what I am trying to find out is the facts of our economic situation upon which to base a sound judgment with respect to competition and combination. It may be, for example, that the whole system of antitrust law ought to be rewritten. There have been many recommendations to that effect. Therefore, I ask you for your opinion as to the exact extent to which competition may properly be eliminated, and to what extent those who carry on a business may be permitted to write their own rules, which is what you are doing in this case.

Mr. CAMMACK. I can't give you a full answer to that, Senator. I believe that elimination in competition in some matters is for the benefit of the public. I think elimination of competition in the commission rate that you would pay to a broker is entirely beneficial. I think it desirable to have limitations as regards your underwriting, as to—

The CHAIRMAN (interposing). What specifically do you regard it to be good practice, a desirable practice, to eliminate competition as to underwriting?

Mr. CAMMACK. As to underwriting, I can only take one or two illustrations. Group insurance was designed for the protection of the industrial worker and a regular schedule of insurance, insurance on 1 year's salary. All right; you get into competition on a case and you have got a couple of hundred lives and the president wants \$10,000 of insurance. We say no, under our rules the president in that case can't have more than \$2,500; we don't want to disturb the experience on that case by having one death. There are not a large

¹ "Exhibit No. 65S." appendix, p. 4711.

enough number of lives to insure anyone for \$10,000. There is a rule restricting underwriting that is absolutely sound.

Mr. HENDERSON. That is based on the actuarial tables, is it not?

Mr. CAMMACK. I think it is an actuary's problem to know how large a risk we can take in a group of a given number of lives.

The CHAIRMAN. Let us have your opinion with respect to the elimination of competition in fixing the initial rate.

Mr. CAMMACK. I have tried to answer that question. I think that it would be a mistake to allow any company to quote any rate on any risk. The temptation to cut rates, as you know, has been very dangerous. On the other hand, you should prevent the companies from charging rates that are excessive.

The CHAIRMAN. Now, who should prevent the companies from charging rates that are excessive?

Mr. CAMMACK. Well; perhaps I could put it another way. If it is found that companies under their plan are charging excessive rates, then a correction should be made.

The CHAIRMAN. By whom?

Mr. CAMMACK. By the States, I presume.

The CHAIRMAN. Then you do believe that the States, in the public interest, should exercise some regulatory power over these rates?

Mr. CAMMACK. I wouldn't say that, because I can only illustrate by taking the New York State situation. They have exercised that power on group-life insurance.

The CHAIRMAN. Has the State of New York actually exercised it? Your testimony this afternoon is that your association holds its meetings and compiles its experience, its actuarial experience, and then makes its recommendations, and then files its recommendations with the State commissioner of insurance, and in a comparatively short time the recommendations are acted upon and a rate is promulgated, to use your phrase, almost invariably the same rate as that recommended.

Mr. CAMMACK. Yes.

The CHAIRMAN. So that you have been fixing these rates yourselves, and your organization has been fixing the rates. These tables show that there were how many companies out of 105—19 companies out of 105—in 1937 who were in the association. Now, it was the 19 companies that made the recommendation upon which the State of New York acted in fixing the rate, so that the situation which you have described to us is that an organization of 19 corporations is meeting together in an association which they set up themselves, reviewing the facts in the light of their own judgment, reaching a decision without the supervision of any public authority or without the participation of any public authority, and then having their recommendation, so reached, reflected in an officially promulgated rate by the State authority.

Mr. CAMMACK. I would say that the superintendent of New York certainly did supervise those rates. It is true that he did adopt our recommendations, but he has adopted them on the basis of the experience that we submit to him.

The CHAIRMAN. But you testified to us that he couldn't get any other experience except the experience which you submitted to him.

Mr. CAMMACK. There is no other experience.

The CHAIRMAN. Certainly, so that it comes down actually to the fact that you yourself fix the rate which was promulgated by the State authority, so I am asking you, Is that a desirable system or is it not?

Mr. CAMMACK. I think it is a very satisfactory system.

The CHAIRMAN. Well, then, assuming that you have been acting with the utmost accuracy and the utmost good faith, it amounts to a declaration that so far as group insurance is concerned, therefore, the experts of 19 companies should be permitted to establish the rule which the 105 must needs follow.

Mr. CAMMACK. It seems to me the superintendent of New York State can change those rates.

The CHAIRMAN. Ah, but he doesn't, you testified, because he has no opportunity to do so, and he has no machinery by which he conducts the investigation.

Mr. CAMMACK. He has the investigation at his disposal. It is filed with him.

The CHAIRMAN. Then let us assume that he has. Do you think it would be desirable, then, for the State authority to employ a force of actuaries of his own to investigate these matters and to announce the rates?

Mr. CAMMACK. I don't think it would be any better than our present system.

The CHAIRMAN. That is what I was getting at. So what you are telling this committee is that the experts of the group insurance companies are fully equipped to do a good job, and that they do a good job, and that that is the best system obtainable at the time.

Mr. CAMMACK. I think they have done a very good job.

The CHAIRMAN. Are there any other questions?

Dr. LUBIN. One more question. Mr. Cammack, do you remember the date of the formation of your association?

Mr. CAMMACK. I think it was in 1926; I don't recall.

Dr. LUBIN. Off-hand, do you remember at what time of the year?

Mr. CAMMACK. No; I don't.

Dr. LUBIN. Do you remember the date on which the New York insurance law was amended, and article II, section 101a, was inserted?

Mr. CAMMACK. No.

Dr. LUBIN. Was it before or after the formation of the association?

Mr. CAMMACK. I don't remember.

The CHAIRMAN. If there are no further questions, Mr. Cammack, we are very much indebted to you for your appearance this afternoon.

Mr. GESELL. May I state that Mr. Cammack will be wanted tomorrow, as well as Mr. Flynn?

The CHAIRMAN. Who will be your first witness?

Mr. GESELL. Mr. Flynn.

The CHAIRMAN. The committee will stand in recess until 10:30 tomorrow morning.

(Whereupon, at 5 p. m., a recess was taken until Wednesday, June 7, 1939, at 10:30 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

WEDNESDAY, JUNE 7, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE.
Washington, D. C.

The committee met at 10:50 o'clock a. m., pursuant to adjournment on Tuesday, June 6, 1939, in the Caucus Room, Senate Office Building, Senator Joseph C. O'Mahoney presiding.

Present: Senator O'Mahoney (chairman); Representative Reece; Messrs. Henderson, Frank, Arnold, Lubin, Berge, and Brackett.

Present also: Senator Pat McCarran of Nevada; Representative James M. Barnes of Illinois; Commissioner Edward C. Eicher, Securities and Exchange Commission; Ernest S. Meyers, Department of Justice; Harry J. Daniels, Department of Commerce; and Gerhard A. Gesell, special counsel, Securities and Exchange Commission.

The CHAIRMAN. The committee will please come to order.

During the hearing on May 11, when the consumer study was in progress,¹ I suggested to Mr. Donald Montgomery, who was presenting that study, that some statement should be prepared for the record on the manner in which various standardization acts which are being administered by the Department of Agriculture are being enforced, and what the experience has been under them. In response to that suggestion, I now have a letter, under date of May 29, from Mr. Montgomery, together with a memorandum on the effect of these various acts, together with certain bulletins which have been issued by the Department of Agriculture from time to time.

I present the letter and the memorandum for printing in the record, and the pamphlets to be filed with the records of the committee.

(The letter and memorandum referred to were marked "Exhibit No. 660" and appear in Hearings, Part 8, appendix, p. 3487. The pamphlets are on file with the committee.)

The CHAIRMAN. Mr. Gesell, are you ready to proceed?

Mr. GESELL. I am, Mr. Chairman. The first witness this morning will be Mr. Flynn. I might say that yesterday we considered group insurance of various forms. This morning we will consider ordinary life insurance and present testimony with respect to agreements reached by certain companies controlling the rates of ordinary life insurance.

¹ See Hearings, Part VIII, p. 3366.

TESTIMONY OF B. D. FLYNN, VICE PRESIDENT AND ACTUARY,
TRAVELERS INSURANCE CO., HARTFORD, CONN.—Resumed

NON-PARTICIPATING RATES

Mr. GESELL. Mr. Flynn, you stated yesterday, did you not, that you were an officer and actuary for the Travelers Insurance Co. of Hartford?

Mr. FLYNN. Yes, sir.

Mr. GESELL. That company at the present time is writing nonparticipating life insurance, is it not?

Mr. FLYNN. Yes.

Mr. GESELL. It is a stock company?

Mr. FLYNN. Yes; a stock company.

Mr. GESELL. Am I correct in saying that the two other principal companies writing nonparticipating life insurance are also located at Hartford, Conn.?

Mr. FLYNN. Yes.

Mr. GESELL. Those are the Aetna Life Insurance Co. and the Connecticut General; is that correct?

Mr. FLYNN. Correct.

Mr. GESELL. Have you any idea as to the total amount of nonparticipating insurance in force which is attributable to those three companies as opposed to the total attributable to all companies?

Mr. FLYNN. Just a minute. The ratio of nonparticipating insurance in force of the Hartford stock companies and the total business of all companies was 6.1 percent and 6 percent, respectively, in 1936 and at the end of 1937.

Mr. GESELL. I don't quite understand what you said. Do I understand you to say that the three companies, the Aetna, the Connecticut General, and the Travelers, have only 6 percent of the nonparticipating insurance in force?¹

Mr. FLYNN. That is correct.

Mr. GESELL. In the United States?

Mr. FLYNN. Not of the nonparticipating; of the total insurance.

Mr. GESELL. Now I was asking you what percentage of the nonparticipating business is attributable to those three companies.

Mr. FLYNN. You mean in force?

Mr. GESELL. Yes.

Mr. FLYNN. Or issued?

Mr. GESELL. In force.

Mr. FLYNN. About 32 percent.

Mr. GESELL. Our staff has prepared figures from Spectators' Yearbook, Mr. Flynn, which would indicate that the figure was in the neighborhood of 46.6 percent as of December 31, 1937. There were some 232 companies reporting to the Spectators' Yearbook as of that date and 46.62 percent of the ordinary nonparticipating insurance in force was written by the three Hartford companies.

Mr. FLYNN. Does that exclude the group life business?

Mr. GESELL. No; that is ordinary, nonparticipating business excluding the group life.

¹ In this connection see also statement showing the volume of the ordinary business of the three Hartford companies, subsequently introduced as "Exhibit No. 679," and included in appendix, p. 4732.

Mr. FLYNN. Excludes the group life?

Mr. GESELL. Yes.

Mr. FLYNN. These figures are taken from the Unique Manual Digest for the end of 1937

The CHAIRMAN. 1937?

Mr. FLYNN. Yes.

Mr. GESELL. Have you those figures so that you can read them for the record and I will also offer this schedule? We will have both figures before us.

The CHAIRMAN. Perhaps I may suggest that you take the figures offered by Mr. Flynn and then perhaps later during the day you can accommodate the two.

Mr. GESELL. Certainly. It is in the neighborhood of thirty-what percent?

Mr. FLYNN. Thirty-two percent. Thirty-one and seven-tenths at the end of 1937.

Mr. GESELL. All three of those companies are stock companies, are they not?

Mr. FLYNN. Yes.

The CHAIRMAN. What are the names of the companies?

Mr. GESELL. The Aetna, the Travelers, and the Connecticut General.

Mr. FLYNN. Yes.

Mr. GESELL. Now I would like to offer for the record at this time a schedule showing the dividends paid by the Aetna, the Connecticut General, and the Travelers for each year from 1929 to 1938. This schedule shows the stockholders of these companies have received in dividends during the period from 1929 to 1938 a total of \$51,075,000 in stockholders' dividends. The figures have been prepared by our staff from the annual reports of the companies.

The CHAIRMAN. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 661" and is included in the appendix on p. 4717.)

Mr. GESELL. Those dividends are dividends paid by the companies without regard from what department the dividends have been earned. They are the total stockholders' dividends paid.

Mr. FLYNN. Mr. Chairman, I think I should put in the record that we have a very large casualty department, from which most of the dividends have been paid in recent years. That really has nothing to do with the life business and life profits.

The CHAIRMAN. You mean of the total of \$51,075,000 in dividends which have been paid to the stockholders of these three companies as shown by this schedule, a substantial portion was due to the profits on casualty insurance?

Mr. FLYNN. Yes, sir.

Mr. GESELL. In order that these figures which I have just offered for the record may be supplemented and explained, I have also for the record an exhibit entitled "Exhibit of Changes in Surplus Ordinary Non-Participating Business."¹ This exhibit has been prepared for the years 1929 to 1938, inclusive, for each of the three companies separately, and shows the amount of money which they made or lost

¹ Subsequently entered as "Exhibit No. 669," *infra*, p. 4259.

each year in the conduct of their nonparticipating business. I would like to offer it for the record.

The CHAIRMAN. Would you be good enough to show that to the witness and see what his opinion may be of it?

Mr. GESELL. That schedule has been prepared from the gain and loss exhibits of the companies.

The CHAIRMAN. This statement would appear, Mr. Gesell, to indicate losses in certain years by some of the companies.

Mr. GESELL. For the nonparticipating business; yes.

Mr. FLYNN. Mr. Chairman, I can't understand the 'Travelers' figures here, in 1936 a gain of seven millions. Is that right?

The CHAIRMAN. Would you look at your copy, Mr. Gesell?

Mr. GESELL. Those figures are to my knowledge, as far as I know, accurate and have been prepared from the gain-and-loss exhibits of the company. They are offered, as all exhibits are, subject to any corrections which there may be. I have a witness whom I can put on the stand now to say that their figures have been compiled from the gain-and-loss exhibits, if the committee wishes.

The CHAIRMAN. It would seem to the chairman it would be a comparatively simple matter, although one requiring some detail, to determine what the exact facts are, and I have no doubt that the witness or some of his associates can collaborate with one of your staff to get the correct statement. Don't you think that would be helpful?

Mr. GESELL. Certainly.

Mr. COLE. Mr. Examiner, I have quite a little doubt whether these relate to the life business of our company, whether they are not the entire business of the company, and if so, they have very little bearing on the life business. So, I think it might be safer to check them before they go in.¹

The CHAIRMAN. I think it would be well to develop the facts, whatever they may be, with respect to the total figures and the sources from which the profits or losses are incurred.

Mr. GESELL. These figures are to our best efforts and knowledge correct. Now if there are any errors in them, Mr. Chairman, if pointed out to us specifically I think the exhibits can be changed accordingly. They are prepared from the annual reports of the company.

The CHAIRMAN. These are offered now by the S. E. C. as schedules which have been prepared from the annual report?

Mr. GESELL. That is correct.

The CHAIRMAN. They are offered subject to correction.

Mr. COLE. May we have an opportunity to offer correct figures?¹

The CHAIRMAN. Certainly. The committee would very much desire that you point out any errors that there may be in them, but I assume that there is no dispute of the fact that the three companies did pay dividends on all of their business throughout this period represented to their stockholders.

(The schedule referred to was marked "Exhibit No. 662 and is included in the appendix on p. 4717.)

Mr. FLYNN. The Travelers did not pay dividends throughout the period from its life department.

¹ Mr. B. D. Flynn subsequently admitted that the figures in "Exhibit No. 662" are correct, see *infra*, p. 4258.

The CHAIRMAN. What I said was on all business dividends were paid.

Mr. FLYNN. Yes, sir.

The CHAIRMAN. Profits may not have accrued to a particular department, but apparently from these reports, each of these three companies made sufficient profit in the years covered to pay dividends to the stockholders.

Mr. FLYNN. Yes, sir.

The CHAIRMAN. Have you developed any facts with respect to the number of stockholders of each of these corporations?

Mr. GESELL. I have not got to that, sir. I will be glad to ask some questions on that.

The CHAIRMAN. Would you do that? I would like to have the record show where each of these companies was incorporated, the number of stockholders, and such related information.¹

Mr. GESELL. Do you have that information, Mr. Flynn, available for your company?

Mr. FLYNN. I haven't that.

Mr. GESELL. We will be glad to prepare it and submit it for the record.

The CHAIRMAN. Very well.

Mr. GESELL. Mr. Flynn, will you tell us what a nonparticipating contract is?

Mr. FLYNN. A nonparticipating contract is ordinarily a long-term contract with a fixed premium rate guaranteed throughout the term of the policy. There is no offer of dividends or dividend participation on the part of the policyholder.

Mr. GESELL. The essential difference between participating and nonparticipating insurance is that in nonparticipating insurance the profits, if any, which result, go to the stockholders of the company and not back to the policyholders, whereas in participating insurance any profits that result go back to the policyholders. Is that correct?

Mr. FLYNN. That is correct. Profits and losses go to the stockholders.

Mr. GESELL. And your companies sell nonparticipating insurance, do they not?

Mr. FLYNN. Yes, sir.

Mr. GESELL. There is no money paid back to the policyholders if there are any profits?

Mr. FLYNN. Right.

Mr. GESELL. And if there are any losses, the policyholder does not suffer those?

Mr. FLYNN. Right.

Mr. GESELL. Am I correct in saying that generally speaking, nonparticipating rates, gross rates, are lower than participating gross rates?

Mr. FLYNN. Yes, sir; that is correct.

Mr. GESELL. Will you tell us in a general way what the various factors involved in computing a nonparticipating rate are? Am I correct in saying that there are three basic factors, the computation of the expected mortality experience, the interest rate which the company will guarantee on the contract, and the loading or amount which

¹ For above information see supplemental data, appendix, p. 4929.

is added to the net premium to cover expenses which are expected will be incurred in connection with the handling of the policy?

Mr. FLYNN. That is correct.

Mr. GESELL. You have three basic things, then, which you determine in computing a nonparticipating rate—mortality, interest, and loading or expense.

Mr. FLYNN. Right.

Mr. GESELL. The responsibility of fixing rates for any particular company rests upon the actuary?

Mr. FLYNN. Yes, sir.

Mr. GESELL. He must, by his calculations, attempt to anticipate what interest will be earned, what mortality rate will be expected, and what expenses or loadings will be incurred?

Mr. FLYNN. Correct.

Mr. GESELL. That is entirely a matter which relates to the operations of his own company insofar as the expense factor is concerned, is it not?

Mr. FLYNN. Yes; he will base his rates, so far as possible, on his own idea of the future expenses.

Mr. GESELL. Likewise, in guaranteeing an interest rate, he would look closely to his own company's investment position, what the company could expect as a company to earn?

Mr. FLYNN. He would do that, but in addition he would look at the general situation and get all the advice and counsel he could.

Mr. GESELL. Yes; and in the case of mortality, there he would want to pool the experience of his company with the experience of a great number of other companies to get the broadest possible distribution of death rates, shall we say?

Mr. FLYNN. Well, he wouldn't pool his experience, but he would study his own experience in relation to other current experiences.

Mr. GESELL. Then you might say that in establishing the nonparticipating rate, the matter which would be of most general interest to a group of actuaries faced with a similar problem would be the mortality problem, and the problem which would be most subjective, the one involving more closely the operation of his own company only, would be the loading and expense factor.

Mr. FLYNN. I would say the loading and expense factor would involve more nearly the indications of his own company.

Mr. GESELL. Prior to April 1933, am I correct in saying that the three Hartford companies did not have uniform rates?¹

Mr. FLYNN. Correct.

Mr. GESELL. Am I also correct in saying that prior to April 1933 the three Hartford companies did not have uniform cash values on their policies?

Mr. FLYNN. That is correct.

Mr. GESELL. By cash values we mean the amount which the policyholder may get back if he turns in his policy before it runs to the expected maturity.

Mr. FLYNN. Right.

Mr. GESELL. That is sometimes known as surrender value, is it not?

¹ In this connection see tables on nonparticipating life-insurance rates for the three Hartford companies before and after the adoption of uniform rates, subsequently submitted to the committee by the companies, and entered in the record during hearings held July 13, 1939, as "Exhibit No. 922." Printed in appendix, *infra*, p. 4927.

Mr. FLYNN. Yes.

Mr. GESELL. So that before April 1933 there was no uniformity, either in rates on one side or on surrender values on the other?

Mr. FLYNN. Right.

Mr. GESELL. Am I correct in saying that the last time the Travelers Insurance Co. had changed its rates was January 15, 1929?

Mr. FLYNN. I can't answer that.

Mr. GESELL. It was in the neighborhood of '29, was it not, Mr. Flynn—the last time they had made an over-all revision of their ordinary life-insurance rates?

Mr. FLYNN. I can tell you in a moment. It was January 15, 1929.

Mr. GESELL. And have you there information which would indicate when the Aetna and Connecticut General had last changed their rates?

Mr. FLYNN. No, sir; I haven't that.

Mr. GESELL. Reading from Best's Illustration, the 1933 edition, it would indicate that Aetna had last changed its rates January 1, 1926, and the Connecticut General had last changed its rates April 1928. Is that approximately correct?

Mr. FLYNN. I really don't know.

The CHAIRMAN. How about the source? Is that a reliable source book?

Mr. FLYNN. That is a reliable source; yes.

Mr. GESELL. I want to call your attention to a memorandum written by you, addressed to President Zacher, of your company, under date of June 22, 1932. The memorandum is captioned, "Re: New Life Rates." You refer to the fact that Vice President Cammack had telephoned you about some matter in connection with group insurance, and then your memorandum proceeds [reading from "Exhibit No. 663"]:

Cammack stated that they would like to go ahead with the idea of increasing rates, but, of course, would be embarrassed if the Travelers did not do likewise. I told him that I did not see why the three local nonparticipating companies could not get together on a joint program, for if he was agreeable, we were willing, and from what Actuary Henderson said the other day the Connecticut General are thinking along the same line.

Do you recall that memorandum?

Mr. FLYNN. Yes; I recall that.

Mr. GESELL. I would like to offer the memorandum for the record.

The CHAIRMAN. The memorandum may be received.

(The memorandum referred to was marked "Exhibit No. 663" and is included in the appendix on p. 4717.)

Mr. GESELL. Now what did you mean when you said Mr. Cammack would like to increase the rates of the Aetna but would be embarrassed if the Travelers didn't do likewise?

Mr. FLYNN. I would imagine that he had in mind the fact that at that time investment conditions had changed materially and were changing. Prospects of interest rates were changing, and I think in the minds of all actuaries at that time was the thought that we would have to take care of that in rates.

Mr. GESELL. Very well, but why would he be embarrassed to go ahead and take care of it himself for his own company?

Mr. FLYNN. I think under the conditions he felt it would be well for us to pool our experience, pool our knowledge, and pool all information bearing upon the working of rates.

Mr. GESELL. Your companies had operated side by side there in Hartford, Conn., without having had uniform rates for years and years and years, hadn't they?

Mr. FLYNN. Yes.

Mr. GESELL. Then suddenly, in 1932, he tells you that he would like to raise his rates, but would be embarrassed if you didn't do likewise. You could have exchanged information without coming to a uniform agreement on this thing, couldn't you?

Mr. FLYNN. Not very well. I think we would all work independently unless we were going to get together and study the problem.

Mr. GESELL. Now may I proceed and call to your attention another memorandum which is dated June 25, 1932, addressed to you from Mr. H. Pierson Hammond. He is one of the actuaries in your division, is he not?

Mr. FLYNN. Yes, sir.

Mr. GESELL. The subject is again new life rates. He says [reading from "Exhibit No. 664"]:

Nonparticipating companies, American Life Convention, appear to want to increase rates but are waiting to see what the three companies in Hartford will do.

In discussing the situation with Mr. Laird, he said that the Connecticut General was waiting to see what the Travelers and Aetna would do. I suggested that he might, on his return, take the matter up with the Travelers and that I felt sure that the company would cooperate. He said he would try to do so immediately upon his return.

I thought it advisable to suggest that Mr. Laird take this matter up inasmuch as he had told me that President Huntington was away for 2 months.

Now, putting this memorandum and the other memorandum together, we have about this situation, don't we, that all the nonparticipating companies in the American Life Convention, the small nonparticipating companies scattered throughout the Middle West, were looking to see what you three Hartford companies would do, and that Connecticut General was waiting to see what Aetna and Travelers would do, and Aetna, next to the largest, was waiting to see what your company, the largest, would do? That was the situation, wasn't it?

Mr. FLYNN. I think that is probably so, and the reason for that was, as I remember, that the times were very unusual. June 1932 everybody was thinking along the same line. I think if they ever felt they should get together to pool their information, to pool their knowledge, to get the very soundest and most secure rates for the policyholders, that was the time.

Mr. GESELL. Your company was sitting at the top of this heap, wasn't it?

Mr. FLYNN. As far as size is concerned.

Mr. GESELL. You were in a position to control the prices of nonparticipating insurance throughout the United States.

Mr. FLYNN. I wouldn't say that. I don't think our size gave us any right or privilege in that matter.

Mr. GESELL. In effect they were all waiting to see what your company would do, weren't they?

Mr. FLYNN. That may have said so there. I really can't give an opinion on that.

Mr. GESELL. Is there anything in these memoranda which discusses pooling of information, discusses troubled times, discusses the need for getting together?

It is just a pure and simple question of price leadership from start to finish, isn't it?

Mr. FLYNN. I wouldn't say that at all. It was not a matter of getting together to fix prices. It was a matter of strenuous times, strained times. Every actuary was anxious to get the very best result he could, and to pool all information, pool all investment-department knowledge, investment officers' knowledge, and in every way try to work for security.

Mr. GESELL. You have just told me a minute ago, though, Mr. Flynn, that as far as the loading factor in your premiums was concerned, that was a matter for you to determine individually, upon the basis of your own company's experience. What difference did it make to you whether some little middle western company in the American Life Convention had a higher or a lower expense rate in connection with the operation of this nonparticipating business?

Mr. FLYNN. We weren't making rates for them. We were working out rates among ourselves, and when we began to study the matter, we discovered our expenses didn't differ very much.

Mr. GESELL. I would like to offer te memorandum for the record. (The memorandum referred to was marked "Exhibit No. 664" and is included in the appendix on p. 4718.)

Mr. ARNOLD. Would it be fair to say that in these troubled times companies with higher expenses than yours might be facing difficulties?

Mr. FLYNN. I wouldn't think that they would be facing difficulties.

Mr. ARNOLD. What do you mean by these troubled times that worried you so much?

Mr. FLYNN. Well, the investment situation, primarily.

Mr. ARNOLD. You thought a raise in rates would help out the investment situation?

Mr. FLYNN. To change the interest factor in the rates, should help.

Mr. ARNOLD. Any raise would help out any companies which might be in difficulty.

Mr. FLYNN. Not for the purpose of helping them out of difficulties.

Mr. ARNOLD. But it would have that effect, wouldn't it?

Mr. FLYNN. It would help, but you see these life rates we were talking about were to run in the future, 5, 10, 40, or 50 years. You have to figure out today what rate you are going to earn over an average term. It was really the rate of interest that most everybody was looking at.

Mr. ARNOLD. You didn't expect troubled times for 40 years, did you?

Mr. FLYNN. I am really not competent to make reply to that.

Mr. ARNOLD. Did you at the time? You spoke of troubled times. You weren't really thinking of the next 40 years, were you?

Mr. FLYNN. Well, 10, 20, 30, or 40.

Mr. ARNOLD. You thought there would be troubled times for 40 years, and in effect you were holding an umbrella over the less efficient companies by these price-fixing agreements, weren't you?

Mr. FLYNN. We, at the time we were discussing this matter, weren't contemplating other companies following our rates. We were working it out for the three.

Mr. ARNOLD. Then you were, in effect, contemplating holding an umbrella over the less efficient of the three companies?

Mr. FLYNN. You mean the three companies?

Mr. ARNOLD. When you raised the rates or agreed to raise your rates.

Mr. FLYNN. The only reply I can make, Mr. Arnold, is what I said before. We were trying to get together to pool information and knowledge to have as sound a rate as possible during these long terms.

Mr. ARNOLD. I have only one more question for the record which I simply want to put in. We discussed it yesterday, and I simply want to put it in at this point. Was the question of the violation of the antitrust laws, which assumed some proportion with respect to group insurance, raised with respect to this insurance?

Mr. FLYNN. Not so far as I know.

Mr. ARNOLD. You didn't consider them at all?

Mr. FLYNN. No.

Mr. GESELL. As a result of these memoranda, the Aetna, the Travelers, and the Connecticut General, the three largest nonparticipating companies, got together and agreed to a program of uniform rates for ordinary insurance, did they not?

Mr. FLYNN. Right.

Mr. GESELL. Now, that program for uniform rates was a program for uniform rates, whether you call it pooling or whether you call it rate fixing, or no matter what you call it, Mr. Flynn. You agreed to all the factors in ordinary life insurance nonparticipating rates.

Mr. FLYNN. After full discussion and examination of the experience and the figures of each of the three companies, and after considerable debate, we reached a conclusion which was agreeable to all three.

Mr. GESELL. Now, I would like to read you a letter which you wrote under date of June 28, 1932, to Mr. Zacher, who was president of the Travelers Co. The letter states [reading from Exhibit No. 665]:

A meeting was held in my office this afternoon on the general subject of prospective increase in nonparticipating life rates. Those present were Vice President Cammack of the Aetna, Vice President Laird and Actuary Henderson of the Connecticut General, Actuary Hammond, Assistant Actuary Hoskins, and myself. After considerable friendly and cooperative discussion the following points were tentatively decided upon.

1. The three local nonparticipating companies would increase rates effective upon the same date.

2. January 1, 1933, appealed to all three companies as a good date for making increased rates effective. It was apparent from Mr. Cammack's general statements—which he made to me over the phone Saturday morning and again on the train from New York yesterday—that he had not as yet had an opportunity to talk with Mr. Brainard in regard to the effective dates of rates * * *.

3. It was tentatively thought desirable to have identical rates for all three companies for principal forms.

4. The Aetna and Travelers felt that 4 percent was a proper interest assumption as a basis for new rates. The Connecticut General thought that this was as low as we could go (they had previously mentioned 4¼ percent and were agreeable to go along with the idea of 4 percent at least in the preliminary work of matching ideas on rates.) My own opinion is that the Connecticut General will cooperate with the other companies upon a 4-percent interest basis.

That would indicate that the Connecticut General wasn't in accord with your company and the Aetna with respect to the interest factor when you first got together.

Mr. FLYNN. At that time; yes.

Mr. GESELL. No. 5 would indicate that you agreed on the mortality basis. No. 6, the memorandum states [reading further from "Exhibit No. 665"]:

Expense loadings were discussed tentatively with the result that a reasonable loading for expenses and profit by age can be safely counted upon.

That a reasonable loading for expenses and profit by age can be safely counted upon—

Was that a pooling of experience?

Mr. FLYNN. Well, this decision, or this tentative getting together, was based upon the study by each company of its own expenses.

Mr. GESELL. And profits.

Mr. FLYNN. Well, not necessarily profits.

Mr. GESELL. It says "loading for expenses and profit."

Mr. FLYNN. Well, that would not be a matter of experience; that would be a matter of determination.

Mr. GESELL. That would be a matter of common design rather than of common experience.

Mr. FLYNN. It would be common purpose or design for profit and contingency.

Mr. GESELL. So that in reaching a decision as to the loading, tentative though it was, at this time you were in effect reaching a decision also as to the amount of profit that you felt desirable.

Mr. FLYNN. We were discussing that.

Mr. GESELL. You also discussed at this time surrender values. The memorandum says under paragraph 7 [reading further from "Exhibit No. 665"]:

The Connecticut General, which has had rather liberal surrender values, is agreeable to a material change, particularly in those at the end of the third, fourth and other early policy years. The Aetna at present have values which are not quite so liberal as ours and would prefer not to increase surrender values materially. There was the further point that the Aetna use the same values for both participating and nonparticipating business and did not feel that they could lower participating values because of participating competition. Our own position was that we would like to have as high surrender charges as possible particularly in the early years.

Then your memorandum goes on to state that:

The general conclusion from today's meeting would be that material progress has been made and we can with fair assurance assume that the local nonparticipating companies will act together in an increase in life rates at the end of this year.

May I offer this memorandum for the record?

The CHAIRMAN. It may be received.

(The memorandum referred to was marked "Exhibit No. 655" and is included in the appendix on p. 4718.)

Mr. GESELL. Now, Mr. Flynn, at this time when you had your first meeting and got together on this thing there were substantial differences in opinion expressed were there not?

Mr. FLYNN. Well, I wouldn't say substantial. I think the experience rates and their ideas of probable interest rates did not differ very much.

Mr. GESELL. Regardless of the matter of degree, you were in difference as to interest in rates; you were in difference as to the question of surrender value. There was some slight difference on the question of mortality.

Mr. FLYNN. Yes.

Representative BARNES. Mr. Chairman, may I interrupt right there? What percentage does the mortality play in the fixing of rates? You base it upon loading, interest charges, and mortality. Now, what percent of your total rate is made up of your mortality?

Mr. FLYNN. That is very difficult to answer because the mortality by age throughout the life of the contract is discounted at a particular rate of interest. You mean if the premium were \$30, how much of that could be reasonably figured as the mortality cost?

Representatives BARNES. Correct.

Mr. FLYNN. May I ask my assistant for an estimate on that?

The CHAIRMAN. Surely.

Mr. FLYNN. The best answer that I can give is that the net premium which involves the mortality cost, discounted for interest, would be about twenty-four or twenty-five dollars out of a \$30 premium.

Representative BARNES. In other words, the big major part of your rate structure is the mortality table.

Mr. FLYNN. Yes, sir.

Representative BARNES. Your mortality table as I understand is based on one or two or more general mortality tables in existence, subject to the own experience of each individual company as to the risks they insure themselves, depending upon the agents and upon the medical examination; is that correct?

Mr. FLYNN. Yes; that is correct.

Representative BARNES. In pooling your information and interest at the time this agreement was reached, was there much variance between the various companies as to the mortality experience of the various companies?

Mr. FLYNN. Not very much variance, if I remember correctly.

Representative BARNES. Their experience was approximately the same, or was there any difference at all, do you know?

Mr. FLYNN. I don't recall any material difference. There may have been differences by form, a particular form, but in general I think all companies operated in about the same sections of the country, underwriting about the same way.

Representative BARNES. But the class of business being insured would materially affect the mortality rate and therefore materially affect the rate structure to be charged to the individual.

Mr. FLYNN. Right.

Representative BARNES. And if one company was more strict on their risks than the others, it would be a material saving to that company.

Mr. FLYNN. It would mean some saving; yes.

The CHAIRMAN. How do you explain, then, the apparently wide variance in the opinion of the actuaries of these three companies as set forth in paragraph 5 of your memorandum of June 28, 1932? ¹

Mr. FLYNN. I think the answer to that, Senator, is that the Connecticut General had a somewhat lower mortality on its direct business than either of the other two companies had at that time.

The CHAIRMAN. May I ask when the American Men Table of Mortality was computed?

¹ See "Exhibit No. 665," appendix, p. 4718, at p. 4719.

Mr. FLYNN. I don't know; I think it was 1925 or 1926.

The CHAIRMAN. Is that table now the basis of the actuarial computations of all the companies?

Mr. FLYNN. No, sir. There are various bases used by the companies. That is the present basis for nonparticipating rates, however.

The CHAIRMAN. Is this the table which was prepared in 1926?

Mr. FLYNN. Yes.

The CHAIRMAN. And it is uniformly used by some of the companies, the nonparticipating companies?

Mr. FLYNN. Yes, sir.

The CHAIRMAN. It is a different table from that which is used by the participating companies?

Mr. FLYNN. I really can't tell.

Mr. HENDERSON. The actuarial table is the same, but the percentage applied is different. This is the same table, isn't it?

Mr. FLYNN. This is not the American Experience Table, which is the old table referred to so often. This is the American Men Table, which was a later compilation on more recent experience.

Mr. FRANK. But used by many companies, both participating and nonparticipating.

Mr. FLYNN. I beg your pardon. What was the question?

Mr. FRANK. I say that table is used both by participating and nonparticipating companies for many purposes, is it not?

Mr. FLYNN. I can't tell.

Representative BARNES. Your experience was based on that table was it not?

Mr. FLYNN. Our experience was related to that table, but we also related it to a table of our own experience which we have compiled along through the years.

The CHAIRMAN. Here we have apparently three different tables: We have the Table of Experience, we have the American Men Table, and we have the table mentioned in the New York statute, which was put in the record yesterday,¹ the American Men Ultimate Table. That is a different table from either of the other two, is it not?

Mr. FLYNN. That is the ultimate experience; that is, experience after a certain selected period of duration of the policy, while the medical selection is working off. The ultimate experience, the American Men Ultimate Table, covers the experience after that selection is presumed to have worked off.

The CHAIRMAN. What I am getting at is this—that to you as an insurance actuary these three phrases mean different things: The American Experience Table, the American Men Table, the American Men Ultimate Table.

Mr. FLYNN. Excepting the second. I would make that the American Men Select Table, and then there is the American Men Ultimate Table.

The CHAIRMAN. Which of these tables is actually used as the basis of your company in fixing rates?

Mr. Flynn. In this particular calculation it was the American Men Select Table.

¹ See "Exhibit No. 646," appendix, p. 4692.

The CHAIRMAN. And then that selection was further refined by this agreement, I take it.

Mr. FLYNN. Yes.

The CHAIRMAN. Because the paragraph to which I refer reads [reading from "Exhibit No. 665"]:

The Aetna's idea of a mortality basis was 90 percent of the American Men Table up to age 75, increasing 2 percent for each age up to age 80 for all forms other than term, which they would place upon a 100-percent mortality basis for all ages. The Connecticut General's idea was to start at about 75 percent of the American Men Table at age 20—

A very striking variation apparently—

increasing to 100 percent at age 50 and going somewhat higher for the older ages. Our own idea follows more closely that of the Aetna. This basis should give a reasonable mortality margin for safety.

So here in this agreement we have three different views of how the mortality selection table, the American Men Select Table, should be varied in order to determine the rates.

Mr. FLYNN. That is correct.

The CHAIRMAN. Would a layman be justified in the assumption that these so-called tables of experience and tables of mortality really play but little part in fixing the rate?

Mr. FLYNN. I don't think that would be correct, Senator. They play an important part.

The CHAIRMAN. But if there can be such a variation in judgment between the actuaries of the Aetna, who say that they will take 90 percent of the table up to the age 75, and the actuaries of the Connecticut General, who say they will take 75 percent of the table beginning at the age 20, it must be clear that there is no standard.

Mr. FLYNN. That is the judgment of the actuary of a particular company as to the experience he thinks will be experienced by his company in the future.

The CHAIRMAN. So now again I am asking you, as a layman, what confidence can I place in the standard fixed by the so-called experience tables when I find you, the secretary of the Travelers Insurance Co., drafting a memorandum like this, which shows such a tremendous variation among the three leading companies of Hartford?

Mr. FLYNN. Well, these were at the beginning of negotiations. We were all basing estimates upon the same table.

Mr. GESELL. Isn't it a fact, Mr. Flynn, that in reaching an agreement upon the basis of mortality experience that you use in computing your rates, you have in effect reached an agreement which directly affects the amount of profit that each of the companies will make, since it is from the mortality savings that you nonparticipating companies make such a large percentage of your profits?

Mr. FLYNN. Are you basing your question on gain and loss exhibit figures?

Mr. GESELL. Your company has made money, hasn't it?

Mr. FLYNN. Yes; but I thought you were thinking of those exaggerated profit figures which appear in the gain and loss exhibits.

Mr. GESELL. Your company has made money, has it not, and does not that money which is made come from, to a large extent, savings in mortality?

Mr. FLYNN. To a large extent; yes.

Mr. GESELL. In coming to an agreement in your mortality experience, you have come to an agreement which directly affects the amount of profits which you will receive.

Mr. HENDERSON. Mr. Gesell, may I suggest that Mr. Flynn has been in consultation with his assistant and Mr. Cole, and maybe the questions are being precipitated too fast. If he has some memos, and the like, he may wish to consult with them.

Mr. COLE. I am simply worried, Mr. Henderson, about this statement about profits, because I don't think there are any accurate figures here yet as to the profits from the life business in the last few years, and I don't want any misleading assumptions; that is all.

Mr. HENDERSON. Neither do we, Mr. Cole; that is the reason suggested that we don't ask the question so that an answer might be given that would be different. I suggest that when the witness does want opportunity to speak to his associates he ask for it. If he will ask us, we will let him consult.

The CHAIRMAN. Do you care to have the question of Mr. Gesell repeated?

Mr. FLYNN. That last question.

The CHAIRMAN. Yes.

Mr. FLYNN. I would like it, Senator.

The CHAIRMAN. The reporter will read it to you.

(The reporter read Mr. Gesell's last question.)

Mr. GESELL. Let me put it this way. Is it not a fact one of the sources of profit in the sale of the nonparticipating insurance is savings from mortality?

Mr. FLYNN. Yes.

Mr. GESELL. When you three nonparticipating companies reached an agreement on the mortality you would use, you were reaching an agreement which had relation to not only anticipated mortality but also a relation to anticipated profits.

Mr. FLYNN. I wouldn't put it "anticipated profit"; I would think that we had in mind a possible margin in the mortality factor.

Mr. GESELL. Let's just see. Do you make any appreciable amount of money or expect to make any appreciable amount of money, by guaranteeing an interest rate lower than that which you are going to earn?

Mr. FLYNN. It is very difficult to answer that, Mr. Gesell. We can't tell where the profit may come. We can't tell if a profit will come. As Mr. Cole has said, if the life department profits could be segregated, I think you would find we were not making much of any profit in the life insurance business.

Mr. GESELL. As far as the figures are concerned, we have asked for the forms, and we will have them over here and decide on the accuracy of them. Now let's keep the discussion on the theoretical base of where rates are computed and where sources of profit are expected to come from. All three of you companies have stockholders, and you are in the business of selling insurance to make profits for your stockholders, are you not?

Mr. FLYNN. Right.

Mr. GESELL. Now, in fixing the nonparticipating rates and attempting, as you must if you are to be the trustee for your stockholders, to anticipate some reasonable margin of profit for them in the business,

is it not true that you expect that profit, if it is to come, to come largely from savings from mortality?

Mr. FLYNN. I can't say that, Mr. Gesell.

Mr. GESELL. Isn't that where your profits in the past have come from, Mr. Flynn?

Mr. FLYNN. I wouldn't say it was where they have come from. I think over certain years there have been possible savings of expenses against loading and savings in interest.

Mr. GESELL. Those two have been very, very slight as compared to the amount of money you have saved through mortality, have they not?

Mr. FLYNN. I really cannot answer that.

The CHAIRMAN. Where do you expect your profits to come from?

Mr. FLYNN. We have no particular source of profit—from all three we would hope.

Mr. ARNOLD. Don't you segregate them?

Mr. FLYNN. Really, we haven't, that I know of.

Mr. HENDERSON. Wasn't the Connecticut General's idea based upon their saving on the mortality table?

Mr. FLYNN. It was based upon their experience, apparently.

Mr. HENDERSON. But that experience—

Mr. FLYNN (interposing). Would indicate a profit.

Mr. HENDERSON. A saving; yes. Don't you have the same experience? Don't you record that?

Mr. FLYNN. I don't think our experience during that period was as good as the Connecticut General's.

Mr. HENDERSON. That wasn't my question. My question was: Don't you keep a record of that experience?

Mr. FLYNN. Yes, sir.

Mr. HENDERSON. How did you arrive at 90?

Mr. FLYNN. From a study of mortality experience.

Representative BARNES. In other words, your rates are based, from an actuarial point of view, on 100-percent mortality. Your loading or administrative charge, say, 4 percent charge, would bring you out even at the termination of the policy, assuming no surrender and assuming all the way through—in other words, if you earn more than 4-percent interest that would be profit. If you do not have 100-percent mortality, you will save a difference of mortality; if there are surrenders in the early years in your policy, say, up to 8 years, you are going to make a profit on all those surrenders or lapsing of all those policies, and those savings in that will mean savings and the profits your company will make; is that correct?

Mr. FLYNN. That is correct, except I should explain about the profits on surrenders. That is really a misnomer. When a policy is issued you put up a legal reserve and borrow from surplus to put it up. When the policy is surrendered, you release that reserve back to surplus. It is called profits in certain exhibits, but we look upon it as a release of the surplus borrowed.

Representative BARNES. But it gives the company access to that money where they couldn't use it otherwise.

Mr. FLYNN. Correct. It releases that money.

Representative BARNES. Do you know the mortality experience based on American Men Select Table in 1932 of your company?

Mr. FLYNN. I don't.

Representative BARNES. Or any of the years of that time?

Mr. FLYNN. I don't.

Mr. GESELL. It was appreciably less in each case, wasn't it, Mr. Flynn?

Mr. FLYNN. Than the American Men Select; yes, sir.

Mr. GESELL. If I may, I would like to proceed.

The CHAIRMAN. I think we have taken you away from your examination.

Mr. GESELL. Can you tell us the nature of the discussions and agreements which were reached among the three companies with respect to surrender values and charges at this time?

Mr. FLYNN. I don't recall what those deductions were.

Mr. GESELL. May I ask you to examine this document?

Mr. FLYNN. Will you tell me where this comes from? There is no identifying mark on it.

Mr. GESELL. I am simply asking you to refresh your memory with respect to agreements reached. It didn't come from the files of your company.

Mr. FLYNN. I really can't recollect whether this was a final conclusion or the temporary or tentative conclusion during discussion.

Mr. GESELL. Let me get at it this way, Mr. Flynn: Your companies now have uniform agreements for surrender charges, do they not, and surrender values?

Mr. FLYNN. Yes.

Mr. GESELL. When did those agreements go into effect—was it not in connection with the uniform rate increase of 1933?

Mr. FLYNN. Yes.

Mr. GESELL. Now, what is the uniform basis that all of your companies are operating on at the present time?

Mr. FLYNN. I haven't the detail. I will have it prepared.

Mr. GESELL. Will you just consult with your associates and tell us what charges you have agreed to? It is a very simple program, Mr. Flynn.

Mr. FLYNN. Mr. Gesell, you mean the basis for making the decision?

Mr. GESELL. You testified your three companies have a uniform agreement which has been in effect since the uniform rate increase in 1933. All I want to know is what that uniform basis is.

Mr. FLYNN. The basis of surrender charges has been changed since 1933.

Mr. GESELL. Can you tell me what it is now?

Mr. FLYNN. Under our present plan the surrender value is based on charges of one-third of the reserve in the second year, with a minimum of \$12.50 and a maximum of \$25 in later years, no surrender charge in the twentieth and later years.

Mr. GESELL. Now, you had an agreement substantially similar to that which was reached at the time of the rate increase in 1933, did you not?

Mr. FLYNN. Yes.

Mr. GESELL. Mr. Flynn, do you recall that just prior to the time these first uniform rates went into effect in 1933, there were some objections raised as to the methods being followed by the Aetna in handling its modified life policy?

Mr. FLYNN. I don't remember distinctly. I know there was some discussion at that time.

Mr. GESELL. May I call your attention to a memorandum which you wrote under date of October 20, 1932, re Aetna's Modified Life Form [reading from "Exhibit No. 666"]:

Mr. Cammack phoned this morning to state that they were endeavoring to increase their modified life rate but discovered that if they followed the basis of their new life rates they would have nonparticipating rates at certain ages higher than those of the Prudential's modified life. Little is increasing his modified three rates at ages between 50 and 60 but not changing his modified five rates. Cammack is proposing to continue his present modified life rates. The contract is not as liberal as that of the Prudential in that 40-percent commission is paid at first and 40 percent only on the increase of premium at the end of the 5-year period whereas he understands the Prudential pays the commission on the whole premium at the end of the preliminary period.

As I understood it over the phone, Cammack checked his present modified life with the rates which would be required under the new program and found that at age 40 there was no difference; at age 45 the old rates were 60 cents inadequate; at age 55 \$1.23 inadequate; and at age 65 \$2 too much.

Cammack stated that he called in order to remove any question of bad faith in the matter—although he presumed that we would not be particularly interested.

Does that refresh your recollection with respect to that matter?

Mr. FLYNN. Yes, sir.

Mr. GESELL. Is it not a fact that when the presidents of the three insurance companies met to approve this uniform rate increase the question of this modified life policy of the Aetna's came up?

Mr. FLYNN. I don't know.

Mr. GESELL. May I ask, then, if the committee please, that Mr. Flynn step down from the stand for a moment and I will call Mr. Laird.

While Mr. Laird is coming to the stand, may I offer this memorandum for the record?

The CHAIRMAN. The memorandum may be received.

(The memorandum referred to was marked "Exhibit No. 666" and is included in the appendix on p. 4719.)

The CHAIRMAN. Mr. Laird, do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LAIRD. I do.

TESTIMONY OF JOHN M. LAIRD, VICE PRESIDENT, CONNECTICUT GENERAL LIFE INSURANCE CO., HARTFORD, CONN.

Mr. GESELL. Mr. Laird, you are connected with the Connecticut General, are you not?

Mr. LAIRD. Yes.

Mr. GESELL. In what capacity?

Mr. LAIRD. Vice president and secretary.

Mr. GESELL. Were you familiar with the discussions which took place among the three companies in 1926, with respect to arriving at a uniform rate program?

Mr. LAIRD. In a general way, yes.

Mr. GESELL. You have heard the testimony of Mr. Flynn just before he left the stand. Do you recall the conversations that took place in your company and with the other companies concerning the Aetna's modified life policy?

Mr. LAIRD. I remember a question was raised, yes.

Mr. GESELL. Do you recognize the second and third sheets of this document as a memorandum¹ which was written concerning it by Mr. Henderson of your company and which you turned over to Mr. Huntington?

Mr. LAIRD. Yes; that is a memo by our actuary.

Mr. GESELL. Did you take that memorandum with you to a meeting of the presidents, or have any discussion with Mr. Huntington, the president of your company?

Mr. LAIRD. I think I talked with Mr. Huntington, but I don't know that the presidents even met.

Mr. GESELL. The memorandum states as follows [reading from "Exhibit No. 667"]:

The continuation of the present rates by Aetna on this policy form will be a very serious matter from a competitive standpoint. Because I have been assuming that we were going to have almost 100 percent cooperation between the three companies, I was very much surprised when I heard of their decision.

Then there is a discussion of the Aetna's modified life form, and a comparison of that form with the term forms used by your company and the Travelers.

Do you recall what discussions you had with President Huntington of your company concerning this matter?

Mr. LAIRD. Naturally, not in detail, but, as I remember the situation, the Aetna's modified life form was a kind of combination of life and term.

I think the Aetna worked the rates for it as if it were entirely life, whereas we thought it should bear a different rate because of what we considered a term element in it.

Mr. GESELL. Well, in effect, though your company and the Travelers did not write this modified life form, your term forms were so near to the modified life form that the Aetna's failure to apply the new program to its modified life form gave it a competitive advantage.

Mr. LAIRD. Well, the two situations were sufficiently close that the agents would make comparisons and it could be shown that the Aetna was offering lower-priced insurance.

Mr. ARNOLD. You wanted to remove that competitive advantage.

Mr. LAIRD. Well, the three companies had agreed on what we thought was the minimum safe rate to charge for new insurance to be issued thereafter, and there were naturally zones where we didn't have a complete meeting of the mind. This was one of them.

Mr. ARNOLD. The agreement constituted the acceptance of the highest possible basis out of three diverse views, didn't it?

Mr. LAIRD. No, not necessarily. In fact, it would seldom work out that way. In practice, as I remember it, each of the three companies worked out tentative gross premiums according to its best judgment of the future. Then we got together and compared notes and, if there was a variation, we tried to decide according to our best judgment what was the best rate that we should guarantee, having in mind that we must make the contract safe so that we would be able to fulfill our obligations and, on the other hand, having in mind that fully over 90 percent of the business is written by participating companies which at that time were quoting dividends based on their past experience,

¹ Subsequently introduced as part of "Exhibit No. 627," see appendix, p. 4720.

whereas we were projecting into the future; so that we just couldn't raise the rates very much or we wouldn't sell any business.

Mr. ARNOLD. But you also had in mind profits.

Mr. LAIRD. We hoped there would be profits although, as events have turned out, we didn't pitch the rates high enough.

Mr. GESELL. May I refresh your recollection a little further on this thing. You said you didn't recall whether the presidents got together and just what kind of discussions were had. I have in my hand a memorandum written by Mr. Hammond of the Travelers Life Insurance Co., dated 1:50 p. m., November 16, 1932.¹

He reports as follows [reading from "Exhibit No. 669"]:

Mr. Laird, vice president and actuary of the Connecticut General, has just called me on the telephone. I understand from Mr. Laird that there is to be a meeting of the presidents of the Aetna Life, the Travelers, and Connecticut General at 2:30 o'clock today in the Connecticut General building.

It is rather specific on the meeting.

Mr. Laird stated that Mr. Cammack has not had anything to say relative to any change in the rates of their modified life contract. The Connecticut General has just discovered that the Aetna Life proposes to make no change in such rates, and as he understands it the Aetna Life takes the position that if they raise their rates for this form they will be unable to compete with the corresponding policy of the Prudential, namely, the modified five.

Mr. Laird feels that the loading on the Aetna Life form should be somewhere between the ordinary-life and 5-year term, although possibly the ordinary-life loading would be satisfactory.

Mr. Laird told me that he was taking this matter up with President Huntington and expressing the opinion that unless the Aetna Life will change its rates upon the modified-life contract it practically nullifies the entire program. I assume that the conclusions reached by Mr. Laird are probably based upon the fact that the Aetna Life writes a great deal of business on this form in place of ordinary life.

Now, you felt pretty strongly then about this matter, did you not, at the time it came up?

Mr. LAIRD. Well, of course, that isn't my memo; that is another man's interpretation, and that may exaggerate the way I felt.

Mr. GESELL. Will you tell us how you did feel, so we will have it for the record?

Mr. LAIRD. What is the date of that memo?

Mr. GESELL. One-fifty p. m., November 16, 1932.

Mr. LAIRD. Well, of course, it is several years ago, and it is a matter of feeling. It was the first attempt of the three companies to work together, and we did feel that some change had to be made in the Aetna's situation, or we couldn't claim that we had a uniform program.

Mr. GESELL. If you didn't have that uniform program, the Aetna would have had a competitive advantage, would it not?

Mr. LAIRD. Temporarily.

Mr. FRANK. It was the purpose, then, of the effort to get an agreement on this item to deprive Aetna of that competitive advantage.

Mr. LAIRD. Well, the purpose was to put guaranteed rates on a safe basis as we then saw it.

Mr. FRANK. Leaving out the word safe, you may be right; I express no opinion as to whether it was desirable or undesirable. It may be that this was a perfectly desirable, socially useful arrangement; but we are trying to get the facts, and not going into the question of its

¹ Subsequently entered as "Exhibit No. 669," see appendix, p. 4722.

desirability at this time, but the purpose was to avoid any competitive arrangements.

Mr. LAIRD. Do you mind repeating that?

Mr. FRANK. I say your purpose was to eliminate competitive arrangements and to arrive at an anticompetitive agreement.

Mr. LAIRD. The purpose was to have uniform rates on the contracts which all three companies issued, and to have comparable rates on any odd forms that any one of us might happen to have.

Mr. FRANK. And the purpose, therefore, was to stop competition within that field?

Mr. LAIRD. Within the three companies, who, of course, did a very small fraction of the total insurance business in the country.

Mr. GESELL. Is it not a fact, Mr. Laird, that following the dissension which arose with respect to this modified life policy of the Aetna additional meetings were held among the actuaries which resulted in the Aetna agreeing to change the rates which it was going to quote on its modified life, so as to bring them in line with the uniform program which had been proposed?

Mr. LAIRD. My impression is that they adopted a different set of rates. I think there was still a little question in our minds as to whether it was according to our interpretation of the general formula, but at any rate it was close enough so that we didn't object further.

Mr. GESELL. You agreed to it.

Thank you, that is all.

I would like to call for a moment, before Mr. Flynn returns, Mr. Beers.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BEERS. I do.

TESTIMONY OF H. S. BEERS, VICE PRESIDENT, AETNA LIFE INSURANCE CO., HARTFORD, CONN.

Mr. GESELL. You are associated with the Aetna Life Insurance Co., Mr. Beers?

Mr. BEERS. Yes, sir.

Mr. GESELL. In what capacity?

Mr. BEERS. Vice president.

Mr. GESELL. I show you a memorandum addressed to you dated November 17, 1932, initialed by the president of your company, and ask you if you recognize that.

Mr. BEERS. Yes, sir.

Mr. GESELL. This memorandum states [reading from "Exhibit No. 667"]:

In conversation yesterday with Mr. Huntington and Mr. Zacher with reference to the new rates, Mr. Huntington told me that his actuarial department have just discovered that the Aetna did not propose to raise its present modified-life rates. He gave me a memorandum handed him by Mr. Laird. Will you read this and then discuss the matter with me?

May I offer the memorandum and the attached?

The CHAIRMAN. The memorandum may be received.

(The memorandum referred to was marked "Exhibit No. 667" and is included in the appendix on p. 4720.)

Mr. GESELL. Now, after that matter was brought to your attention, were there not discussions held between the actuaries and representatives of your company and the other two companies with a view to reaching a uniform agreement which would no longer put the Aetna's modified life form out of line with the program which had generally been agreed to?

Mr. BEERS. That is a long question. We held several meetings and discussed what would be the answer to the question that had arisen. There was a difference of opinion and we thought that our premium rate was all right; they thought it should be higher. We reached a compromise.

Mr. GESELL. You raised yours somewhat, as a result?

Mr. BEERS. Yes.

Mr. GESELL. Why was that done, if you thought the original rate was all right, Mr. Beers?

Mr. BEERS. They thought it wasn't. When you are entering an agreement with other persons you must reach an agreement. You cannot insist on your own way with respect to one point.

Mr. GESELL. Then, to put it another way, is it safe to say that you departed from what you considered sound actuarial standards in the interests of reaching uniformity?

Mr. BEERS. I should prefer that you don't bring in "sound actuarial standards" at this point. We were selling insurance at rates which we knew we could not afford and we wanted to get our rates up as much as we thought we could get them up with the competition that then existed.

We did not, of course, get the rates up to a profitable point, but we accomplished something.

Mr. GESELL. You said you thought your original rate as proposed was all right. What did you mean, "all right"?

Mr. BEERS. That it was in accordance with the preliminary principles which we had laid down in our current discussions.

Mr. GESELL. In other words, I should have said preliminary sound actuarial standards?

Mr. BEERS. Excuse me, no, sir—fair to the other companies.

Mr. ARNOLD. And by "fair to the other companies" you meant what was stated in this memorandum to Mr. Huntington [reading from "Exhibit No. 667"]:

When we compare a modified policy and an ordinary life policy issued at age 50, the Aetna's competitive advantage is even more marked.

By "fair to the other companies" you meant the elimination of disagreeable competition.

Mr. BEERS. I believe, sir, I referred to the rate we were proposing to keep as being fair to the other companies. That is, we did not feel, with the Connecticut General, that it put them at an insuperable competitive disadvantage.

Mr. ARNOLD. But in the word "fair" you mean that you want a rate which will not put any company at a competitive disadvantage. That is really what you mean by the word "fair."

Mr. BEERS. As between these three companies I think that is right, although I used the word "fair," I believe, as meaning fair to the other companies by the terms of the agreement we were trying to reach.

Mr. ARNOLD. You were all more comfortable in your minds when competition was eliminated.

Mr. BEERS. Yes, sir.

Mr. GESELL. Do you recognize this memorandum dated December 6, 1932, from you to President Brainard of your company, as setting forth the final agreement which was reached with respect to this modified life policy?

Mr. BEERS. I presume so, but I would rather read it.

Yes; yes; that is my memorandum, all right.

Mr. GESELL. And that is the final agreement which was reached on that policy?

Mr. BEERS. I could not swear to that without checking rate books. I presume it is.

Mr. ARNOLD. And there was no insurance commissioner supervising these particular rates, as there was in group life?

Mr. BEERS. None.

Mr. GESELL. The memorandum in the first paragraph states [reading from "Exhibit No. 668"]:

Mr. Keffer and I have attended three meetings with Mr. Laird of the Connecticut General, Mr. Flynn of the Travelers, and their assistants, and this morning we reached an understanding with them with regard to the proper rates to be charged for modified life policies.

I would like to offer this for the record.

The CHAIRMAN. That memorandum may be received.

(The memorandum referred to was marked "Exhibit No. 668" and is included in the appendix on p. 4721.)

Mr. GESELL. That is all, thank you.

The CHAIRMAN. In response to a question propounded by Mr. Arnold, you referred to certain rates which, if I remember your phrase correctly, you were proposing to keep. Do you remember that phrase?

Mr. BEERS. Yes, sir; I used that phrase.

The CHAIRMAN. What did you mean by saying you were proposing to keep these rates?

Mr. BEERS. I meant that we were proposing to use the same rates in our new rate book as we then had in our existing rate book. If that is possibly inaccurate, I could check it by looking at the memorandum.

The CHAIRMAN. I don't think there is anything inaccurate about it. I was merely trying to discover if those were the rates which the other companies were complaining about.

You were proposing to keep certain rates, and the other companies wanted you to raise those rates?

Mr. BEERS. That is right.

The CHAIRMAN. And the question for discussion at these conferences was whether or not you should raise your rates?

Mr. BEERS. That is right.

The CHAIRMAN. Your memorandum of December 6, 1932, says [reading from "Exhibit No. 668"]:

Mr. Keffer and I have attended three meetings with Mr. Laird, of the Connecticut General. * * *

And so forth. It took three meetings, therefore, for you to be convinced that you should raise the rates?

Mr. BEERS. Yes; and to convince them that the amount by which we proposed to raise them was enough.

The CHAIRMAN. The amount by which who proposed to raise them?

Mr. BEERS. We.

The CHAIRMAN. Did you propose to raise them?

Mr. BEERS. In response to their complaint we endeavored to reach a compromise solution.

The CHAIRMAN. Did you raise them as far as they wanted you to raise them?

Mr. BEERS. I believe not, sir.

The CHAIRMAN. So that when these three conferences were concluded you were still of the opinion that the proposed schedule of rates offered by the other companies was too high?

Mr. BEERS. Oh, well, you know, when you reach a compromise, sometimes you get convinced yourself. I can't say how far we were convinced ourselves and how far we merely gave in. We didn't go all the way to their original suggestion.

The CHAIRMAN. So, therefore, you were still of the opinion that their original proposal was too high, or otherwise you would have gone all the way. Isn't that a justifiable conclusion.

Mr. BEERS. Possibly.

The CHAIRMAN. Possibly? Isn't it "yes"?

Mr. BEERS. Perhaps they asked for more than they thought they could get.

Mr. ARNOLD. Do you think that these companies, in fixing these rates around the table, by means of these rate-fixing conferences, are accustomed to ask for more than they think they ought to get as a trading basis?

Mr. BEERS. This particular contract was issued by us, but not by the other two companies; consequently we were not discussing a common rate; we were discussing a special rate which should be consistent with the common rates we had already decided upon.

Mr. ARNOLD. I was referring to your remark that you thought perhaps these companies went into the conference asking for higher rates than they thought they would get.

Mr. BEERS. I beg your pardon. I should have said first, directly, with respect to this one policy form, but that was because—and then what I said, that it was a special kind.

The CHAIRMAN. Now it appears from your testimony that at the beginning you were contending for low rates and the other two companies were contending for much higher rates; that you held various conferences, intracompany conferences and intercompany conferences (three of the latter), at the conclusion of which you went part of the way toward raising the rates. That is the story, isn't it?

Mr. BEERS. I think, sir, you should have said, "with respect to this policy form which you alone issued," and then the answer is "yes."

The CHAIRMAN. Do you think that the rates were raised far enough now?

Mr. BEERS. No, indeed; if by "now" you mean at the conclusion of this.

The CHAIRMAN. At this moment what is your conclusion as to what should have been done?

Mr. BEERS. Are you referring to 1932 or 1939?

The CHAIRMAN. This memorandum is dated December 6, 1932.¹

Mr. BEERS. My present opinion with respect to our 1932 decision is that of course we blundered. We did not raise the rates enough.

The CHAIRMAN. And your original position was altogether wrong?

Mr. BEERS. I am sorry to say it was, but it was competitively desirable, if competition is desirable.

The CHAIRMAN. Which was competitively desirable?

Mr. BEERS. The decision we reached.

The CHAIRMAN. The decision to eliminate competition was competitively desirable?

Mr. BEERS. No, sir; the decision to charge the rate we charged was competitively desirable.

The CHAIRMAN. Of course that decision to charge the rate you did charge was reached by way of agreement among three companies which were supposedly competing.

Mr. BEERS. In the rate book that we were talking about there was not going to be that kind of competition among themselves. Of course we were competing with the other 90 percent of the industry.

The CHAIRMAN. That is to say, among the three the competition was to be eliminated, but not among the other 90 percent.

Now, if you recall Mr. Hammond's memorandum of November 16, 1932,² in which he made a report of a conference with Mr. Laird, it contained the sentence [reading from "Exhibit No. 669"]:

Mr. Laird told me that he was taking this matter up with President Huntington and expressing the opinion that unless the Aetna Life will change its rates upon the modified life contract it practically nullifies the entire program.

Was that representation made to you, that your failure to agree would nullify the entire program?

Mr. BEERS. Failure to agree would be a failure to agree, and that, of course, would nullify the agreement.

The CHAIRMAN. And you felt it very desirable that there should be an agreement?

Mr. BEERS. Yes, sir.

The CHAIRMAN. And therefore you agreed to abandon your position and to raise the rates in accordance with the modified suggestions of the other two companies.

Mr. BEERS. We compromised; yes, sir.

Mr. GESELL. Am I correct in saying, Mr. Beers, that what you wanted to do was to get companies of your type, those other two companies of your type, together on a united front so that you would stop competing among each other and go after the participating companies?

Mr. BEERS. We had been competing in the past, because every now and then we would come to the conclusion that we could write the business a little cheaper than we had, and we wanted to cut the rate first to get a competitive advantage. When it came to raising rates for the sake of safety and not to increase profits but to cut our losses, we very much hated to be the first company, and we were all waiting for each of the other two, so the only thing to do was to get together and go part of the way that we should have gone.

Mr. FRANK. May I refer back to an expression you used a few moments ago? First I want to indicate that one of the purposes of this

¹ "Exhibit No. 668," appendix, p. 4721.

² Subsequently introduced as "Exhibit No. 669," infra, p. 4259.

committee is to explore whether, and to what extent, it is desirable in particular areas of industry to have competition eliminated or modified, and you used the expression, "if competition is desirable." May I ask, Have you any attitude as to whether the life insurance business should be noncompetitive or monopolistic to some or other extent?

Mr. BEERS. I think it should be competitive almost entirely, except in those fields where competition will not lead to better terms for the public but will lead to the destruction of the industry.

Mr. ARNOLD. That means you shouldn't have any competition in rates?

Mr. BEERS. That does not mean you should have no competition in rates; I'm sorry.

Mr. ARNOLD. That means, then, you should have price-fixing agreements as to rates, similar to the thing you have been testifying about.

Mr. BEERS. The price-fixing arrangements would be proper only in the most limited circumstances.

Mr. ARNOLD. The limited circumstances being when the companies could get together and compromise and negotiate concerning the competitive advantage of another. Is that the limited circumstances?

Mr. BEERS. I cannot, sir, lay down a general principle. I do believe that the agreement we reached at the time of the memos we are discussing was a right and proper one, and we acted for the good of the business and of the public.

Mr. ARNOLD. Did the idea of the existence of an antitrust law ever occur to anyone during this conference?

Mr. BEERS. I presume it occurred to everyone during this conference, sir.

Mr. ARNOLD. And you accepted the possibility of violation of the law as a necessary risk of doing business?

Mr. BEERS. I think we would put it this way. I am not a lawyer. Judging from what lawyers told me, and so on, I came to the conclusion that we were not violating the law.

Mr. ARNOLD. Had you read the warning correspondence which the Metropolitan Life wrote in connection with rate fixing in group insurance?

Mr. BEERS. I have read correspondence and also engaged in discussions from time to time.

Mr. ARNOLD. And you discarded the statements of those counsel as not being worth consideration?

Mr. BEERS. No, sir.

Mr. ARNOLD. But weighing them you came to the conclusion that the antitrust laws did permit the fixing of rates in a group, informal or formal?

Mr. BEERS. The weight of the legal advice I received seemed to justify that, sir.

Mr. ARNOLD. Suppose that public utilities fixed their rates by agreements between each other, and without supervision or regulation by any public body. Would you be willing to hazard a guess as to whether that would be good practice?

Mr. BEERS. That is another business. It is easy for me to hazard a guess that the people in the other business might be selfish. The people in my business I don't think are.

Mr. ARNOLD. Never selfish?

Mr. BEERS. Seldom.

Mr. ARNOLD. Seldom very selfish. You do consider profits, however.

Mr. BEERS. We consider them in a rather academic way nowadays. We hope a little later to be able to consider them in a practical way. We think we should make a little profit.

Mr. ARNOLD. Your basis, then, for making a distinction between public utilities and insurance companies with respect to the private monopolistic power to fix rates is that insurance companies are composed of people of so much higher moral and mental caliber that we are safe with them and unsafe with public utilities?

Mr. BEERS. I don't need to apologize for a somewhat frivolous reference to the comparison between the men in the industry. No; of course, not.

Mr. ARNOLD. May I say that the question was frankly argumentative and intended to bring out the point. You need not answer it.

Mr. BEERS. I will see if I can do it. I did want to make the point seriously that, of course, I don't know the public-utility business. The second point I would like to make is that as I understand the meaning of the words "public utility" most public utilities have of necessity a monopoly. Each company has a monopoly, almost, usually a real monopoly, of the services that it is performing for the group for whom it is performing them. In the insurance business there is no monopoly that I know about on the part of any one company.

Mr. FRANK. May I ask, then, leaving the field of industries in which, by law, there is a monopoly to some extent, would you mind comparing your business, let us say, with one which is generally considered to be desirably competitive—let us say the shoe-manufacturing business. I gather from what you say that you think the life-insurance business differs, let us say, from the shoe-manufacturing business, and that to some extent, at any rate, there should be recognized as economically desirable, and therefore legal, noncompetition, anticompetitive devices, or what are popularly called monopolistic practices.

Mr. BEERS. No; I don't think I can say that. I suppose that certain anticompetitive practices in the shoe business are desirable, just as I think certain anticompetitive practices in life insurance are desirable. Don't I pay the same for my sneakers, whichever store I buy them in? I am not sure of this.

Mr. ARNOLD. Are you giving me a lead for an antitrust prosecution of the shoe business?

Mr. BEERS. I thought so, because I think they cost \$1.65, and I don't think they vary much.

The CHAIRMAN. You haven't read the arguments about Czechoslovakian sneakers and those made at home?

Mr. BEERS. These have a trade name on them.

The CHAIRMAN. May I say, Mr. Beers, that I think there is basis for the opinion you have very recently expressed of the high character of the executives of the insurance business. I think the testimony which has been given here today and yesterday indicates a disposition upon the part of the witnesses to be quite generally frank.

Mr. BEERS. We are used to being investigated. We have 48 investigators already, sir.

The CHAIRMAN. Of course I don't like that word. We are just studying you, we are not investigating.

Mr. BEERS. I beg your pardon. If I may change the word, will you say "ask questions" instead of "investigated"?

The CHAIRMAN. But you have been exceptionally frank in answering questions which have been propounded from all sides, it seems to me, and I think that is very helpful in getting to a basis of understanding of the problem.

I was impressed with the statement which, as I recall, you made in response to one of the questions propounded by one of the members of the committee, that in your opinion the insurance business should be competitive except when, in the interests of the insured, competition should be eliminated. Is that a correct statement of your opinion?

Mr. BEERS. That is almost what I said, and I think that is a reasonable statement of my opinion; yes, sir.

The CHAIRMAN. In what fields, is it your opinion, as an expert speaking out of your experience in the insurance business, should competition be eliminated in the interest of the insured and the public?

Mr. BEERS. In general, it is very difficult to state anything so important as that in general terms, particularly without considerable study and thought. I said before, I think, that in certain phases anticompetitive arrangements might be desirable when they do not increase the cost to the public, or where they decrease the cost to the public, where they do not mean less favorable contracts but preferably more favorable contracts to the public, and where the arrangements are necessary to prevent competition which might destroy the industry or tend to destroy the industry; in other words, where the competition would hurt us without benefiting our customers.

The CHAIRMAN. That is a very clear statement. Who is to determine what those fields are?

Mr. BEERS. Naturally we would rather determine them ourselves if we can do that safely to the general public.

The CHAIRMAN. We had a good deal of testimony yesterday in the group insurance field showing that there was an association of some 19 companies, one of them yours, I think, which reached an agreement to eliminate competition with respect to rates, underwriting, and commissions. Do you remember?

Mr. BEERS. Yes, sir.

The CHAIRMAN. You think it is a desirable thing to eliminate competition in those fields and to do it by the action of the competing companies themselves?

Mr. BEERS. In those particular phases, taking the exception to your statement about competition and rates which has been taken before, I must answer yes.

The CHAIRMAN. Do you think that there should be any participation in the determination of the fields in which competition should be eliminated in the interests of the public by any Government agency?

Mr. BEERS. As a theoretical question, that, of course would be answered by most people in the affirmative for this particular field.

and I answer it in the negative and the reason I answer it in the negative may be, of course, that it is my own field; but I think that the results have so far been beneficial to the public, to the purchasers of group policies and the competition in the group business is so keen that I don't believe any unduly restrictive agreement could stand.

The CHAIRMAN. Did you hear the testimony of Mr. Flynn with respect to the variations in the American Men Table?

Mr. BEERS. This morning?

The CHAIRMAN. Yes.

Mr. BEERS. Yes, sir.

The CHAIRMAN. You recall I read to him paragraph 5 of the memorandum which he prepared which reads as follows [reading, from "Exhibit No. 665"]:

Aetna's idea of a mortality basis was 90 percent of the American men table up to the age of 75, increasing 2 percent for each age up to the age of 80 for all forms other than term which they would base upon a 100 percent mortality basis for all ages. The Connecticut General's idea was to start at about 75 percent of the American men table at the age of 20, increasing to 100 percent at age 50 and going somewhat higher for the older ages. Our own idea follows more closely that of the Aetna. This basis should give a reasonable mortality margin for safety.

Mr. BEERS. Yes.

The CHAIRMAN. You agree, do you, that there was this wide variation among the three companies with respect to the use of the mortality tables?

Mr. BEERS. There is this variation, a wide one at some ages of issue, a very narrow one at other ages of issue. I cannot really show you and you cannot see how wide and how narrow the variation is without looking at the resulting premium price. If you were interested in that, I could prepare the actuarial study on the subject.

The CHAIRMAN. No; I am interested in whether there was a variation.

Mr. BEERS. There was, but I think your word "wide" is not correct.

The CHAIRMAN. I see. There may not be as great a variation as this might indicate.

Mr. BEERS. If you saw the table of premium rates, I don't think it would indicate that.

The CHAIRMAN. What I am getting at, Mr. Beers, is this. The testimony of Mr. Cammack yesterday was to the effect that the actuaries of these various companies, meeting together through their committees, made a composite table of experience and then made the recommendations as to rate and then submitted those recommendations to the State commissioner of insurance who almost invariably followed them. That was an example of what we might call self-regulation by the associated group and the elimination of competition in the field of rate making to the degree that it was effective, was it not?

Mr. BEERS. No, sir.

The CHAIRMAN. It was not?

Mr. BEERS. No, sir; I think perhaps I can clear that point up for you in about 1 minute. The companies send their statement of number of employees insured and number of deaths to one company—it happens to be the Aetna—which adds together the number of employees and the number of deaths in each industry classification,

each age, et cetera, and prepares a mortality report which shows the ratio of the actual rates of mortality to the rates of mortality which should have been—which the mortality table shows. That is published, printed, and sent to a great many different organizations, including the Insurance Department of New York. That is the basic data, the only basic data available to the different insurance companies, in studying the substantive rates. The committee then interprets that and sends the result of the interpretation, after approval of the association, to the Superintendent of Insurance in New York, as stated yesterday, who has a staff of actuaries. He studies the basic data and the recommendations of the association insofar as he wishes and feels proper. We know that the actuary of the department always sees it, and then has, so far, always approved our recommendations.

Mr. HENDERSON. May I—

Mr. BEERS (interposing). Excuse me, sir. The fact that the superintendent has the power and the ability and the authority to scrutinize and change the recommendation if he wishes is, in my opinion, sufficient to force us to claim that the superintendent is fixing the rates.

Mr. HENDERSON. I wanted to ask whether what is available to the superintendent's actuaries is a five-company consolidated experience, isn't that correct?

Mr. BEERS. Correct.

Mr. HENDERSON. He does not have the basic data at his command?

Mr. BEERS. He has not asked for it.

Mr. HENDERSON. I am asking for an exact statement as to the basic data.

Mr. BEERS. He has all the basic data at his disposal because he—not investigates; what is the word—examines each of the companies.

The CHAIRMAN. I am glad you avoided the word "investigates."
[Laughter.]

Mr. BEERS. He examines each of the companies every 3 years, if they are located in New York State; if they are Connecticut companies, the Connecticut department does it. And at that time they go through all our operations. They can check any data which we have prepared that way and they can insist on the preparation of other data; so in effect he has available to him more data than our committee does because our committee would not feel it proper to look at the individual data of our competitors.

Mr. GESELL. Now that isn't followed at all when you are fixing these nonparticipating rates. You don't submit any data to him of one sort or another.

Mr. BEERS. Yes; quite right.

The CHAIRMAN. Let me finish this question. What I was leading up to, Mr. Beers, was a comparison between the method employed in fixing the two rates. The testimony of Mr. Cammack, which I think is substantially approved by your statement now, to the effect that the good faith and accuracy of the actuaries in presenting this composite experience is the basis upon which the insurance commissioner acts.

Mr. BEERS. No.

The CHAIRMAN. Your qualification of it is merely that the insurance commissioner has all of this material available to him and if

he wanted to change, he could; and, therefore, since he doesn't change, your report must be accurate and in good faith.

Mr. BEERS. Well, isn't it something like this? Perhaps I have to report, being in some business or other, that I took in \$2,000 gross income last year and here are my books to prove it and they say, "Oh, we won't look at your books. We will take your word for it." But the fact I have said here are my books to prove it makes it somewhat different than if I say, "I made \$2,000 last year and that is my statement and that is all you have to go on." Isn't there that difference?

The CHAIRMAN. I see your point exactly. Let me get this concluding question in and then I will abandon the field. Now I am referring to paragraph 5 of Mr. Flynn's memorandum,¹ dealing with the mortality table which shows a variation, not as wide a variation as it seems to my lay mind in your opinion, but a variation.

Mr. BEERS. A substantial one.

The CHAIRMAN. My thought was that if the actuaries of these three companies can disagree to the extent indicated by Mr. Flynn's memorandum with respect to the mortality table, what assurance have we that there is not an equal inaccuracy in the sort of information that your association has presented to the State insurance commissioner, because in neither instance do you have anybody participating in the preparation of this data on behalf of the public or of the insured.

Mr. BEERS. The similar inaccuracy to which you refer and which exists—probably you asked your question in a way you didn't intend—the similar inaccuracy might be this. In our interpretation of the meaning of the past mortality results, which interpretation leads to our recommendation, there will be differences of opinion from time to time, and what you would call the similar inaccuracies to the differences of opinion in this paragraph to which you refer. With respect to the basic data which is merely, you might say, the ratio of the number of deaths to the number of employees insured, there can be no inaccuracy because that is mere arithmetic.

The CHAIRMAN. But now, coming back to the fundamental question, to what extent in your opinion should there be participation by some agency acting in the public interest in eliminating competition in these fields of competition, in which, in your opinion, competition should be eliminated?

Mr. BEERS. I do not feel that that participation has been proved necessary by results, and I am inclined to think that it is unnecessary.

The CHAIRMAN. So that we can safely trust to the good faith and scientific accuracy of the insurance executives in determining these rates and in determining in what fields competition shall be permitted to survive and in what fields it ought to be eliminated.

Mr. BEERS. My theory may be wrong; I'd say yes, as long as we are good.

The CHAIRMAN. Well, now, who is going to determine how long you are going to be good?

Mr. BEERS. I hope that employers who are buying new group policies, individuals who are buying ordinary policies, and from time to time legislative bodies will take a look at us and see it.

¹ "Exhibit No. 665," appendix, p. 4718, at p. 4719.

The CHAIRMAN. Your phrase brings to my mind the first memorandum presented yesterday by Mr. Flynn, in which he referred to certain methods used to make you be good.

Mr. BEERS. As I remember, that sounded to me as if we would get along very well as long as these companies acted outside the meeting as they talked in meeting.

The CHAIRMAN. Now, that reminds me of the phrase that appeared in that memorandum; that memorandum, by the way, was dated September 30, 1924.¹ There seemed no possibility of getting the Western Union, which was an insurance company, to release the business in this case, "and the only point in writing was to let them know that we understood their attitude and to put some fear in them so that they would not molest other Travelers' renewals in that territory."

Is that the way to make them be good, by putting the fear into them?

Mr. BEERS. I don't know. I don't remember that. Incidentally, I don't like the sound of the memorandum. It probably sounds a good deal different this year than it would have 15 years ago; and one memo, while it probably—

The CHAIRMAN (interposing). Well, of course, you can't judge the weather by a swallow. That is true, but I think there is more than one in this instance.

Mr. GESELL. I have no further questions.

Mr. FRANK. May I ask a question as to the agreements that you were discussing originally in your testimony this morning? There is no supervision by any State superintendent?

Mr. BEERS. No; there has been no supervision with respect to any of those agreements.

Mr. FRANK. Now, at the time those agreements were made was there some publication of the fact that such agreements had been made and of the basis upon which they had been arrived at?

Mr. BEERS. Are you referring to this agreement? Do you mean the agreement we made to adopt certain rates and surrender values? You used the plural.

Mr. FRANK. I'm sorry; I should have used the singular.

Mr. BEERS. It was, you might say, obvious from the facts that were made public that we were adopting the same rates on surrender value at the same time. At least, I think it was the same time, the same date.

Mr. GESELL. Yes.

Mr. BEERS. And consequently that was as good a fact as if there was publication; but whether we published it, I don't know.

Mr. FRANK. Was the public informed; were the insurance buyers informed of the basis upon which you raised that agreement?

Mr. BEERS. The statement that that was made on such and such a loading wouldn't interest the public.

Mr. FRANK. That isn't what I was referring to. I was referring to the matters contained in these memoranda as to whether you were to agree on which life tables to use, and how you were to adjust them, and whether the loading one was to be sufficient to make possible certain profits, and so on. That data might be very interesting to insurance buyers, wouldn't you think?

¹ Supra p. 4159.

Mr. BEERS. I think, sir, we are talking about the same thing really, because if you are going to tell what this premium rate is, you must state the mortality table, which may be a particular mortality table or a percentage variation of another one. You must state the loading formula, which is quite complicated. You must state the rate of interest and any other things that vary the actuarial computation. By the time you get through you have a very complicated statement.

Mr. FRANK. What was that?

Mr. BEERS. By the time you get through you have a very complicated statement, and the buyer of insurance wants to know how much it is at his age; that is all.

Mr. FRANK. I appreciate that often the formulas which technicians use are unintelligible to the laity, but they are capable of being made intelligible, aren't they?

Mr. BEERS. I think there was a publication. Didn't we publish in one of the actuarial journals something about this?

Mr. GESELL. I have been able to find a speech by Mr. Cammack, before some actuarial society, in which he said that the companies had adopted the same mortality basis and the same interest basis in computing their rates. I have not been able to find any publication which said that the three companies had sat down together and reached an understanding on all factors affecting the rates for all ages, and that the rates announced April 1930 were the result of a uniform decision among the three companies.

Mr. BEERS. We would probably avoid that language out of deference to those of us who were worrying most about these antitrust cases.

Mr. HENDERSON. Mr. Beers, you said that all this actuarial computation involved formulas which would be uninteresting to the public. It wouldn't be, however, to a buyer of insurance. Take myself, who bought some insurance about that time. It would be of advantage to know that there had been an agreement reached about the rates by these companies, would it not?

Mr. BEERS. I doubt it, sir.

Mr. HENDERSON. Let me then assure you it would be to me as a buyer.

Mr. BEERS. You are different.

Mr. HENDERSON. I don't think I am much different from anyone who wants to know whether he is buying in competition or buying in a fixed market. I think pretty generally the American public does like to know, if possible, in what kind of a market it is buying.

Mr. BEERS. You were buying in a very competitive market, sir.

Mr. HENDERSON. I am not so sure after the testimony of these last 2 days; that is the reason I am asking. Was the public generally apprized of this agreement; just the simple fact that an understanding had been arrived at after all these years about this uniformity? Outside of this little statement to a learned society that Mr. Cammack made, was there any general notice put upon the public?

Mr. BEERS. Yes; I believe so. I think by the scrutiny of the newspapers and insurance journals, notices of this change in rates were made amply clear to everybody. I don't believe we made the first page of the daily news.

Mr. HENDERSON. I don't think it got down to me, either.

Mr. GESELL. On this point, if I may interrupt a moment, the Life Insurance Edition of the National Underwriter for the issue of Febru-

ary 24, 1933, reading from a small box at the bottom of page 15, had an announcement reading something as follows, and I think this is more or less the frankest statement that we have been able to find of a public nature on this matter:

The Aetna Life has announced that it will make a slight increase in non-participating rates, effective April 1. When the Travelers, near the end of last year, announced an average increase of 4 percent at older ages, it was rumored that Aetna would take similar action early this year unless investment appreciation make this unnecessary. The Travelers, as it happened, after making the announcement, did not actually put the increase in force, but is expected to do so also about April 1. In the case of the Aetna, it is said there will be little change in rates below age 30 or above age 55. Between ages 31 and 55, the advance will range from 3 to 8 percent, probably averaging around 4 percent. There also will be a change in women's life-income plan. The rate is to be increased materially, and also maturity values. At present these are the same as for men. The Connecticut General will increase nonparticipating rates an average of 5 percent April 1.

Mr. HENDERSON. There is nothing in that, Mr. Gesell, which suggests to me that it was by arrangement. On the contrary, what I would gather from that is the same thing I would gather from announcements on merchandise which is bought in competition, that the leader in the business had made certain arrangements, that somebody else followed him, that changes had been made and in competition uniformity had come about because of the necessity of meeting the price. There is nothing in that that you have just read which suggests the public was put on notice. Certainly the policyholders were not put on notice.

Mr. GESSELL. I have been unable to find anything of the sort.

Mr. BEERS. I would not like to accept that as being the most open statement of the thing without a little study of the press clippings myself, if they are available at this late date.

What I started to say a minute ago was that if you bought insurance at that time you were probably told by your agent that he was giving a policy in a company with the lowest net cost, and he would be glad to compare the net cost with all the other companies you might be interested in, because, of course, you ought to have that thing interpreted to you by an expert, and if you asked him about nonparticipating insurance he would have known that the three Hartford companies had the same rate and would have told you. Do you remember whether you bought participating or nonparticipating insurance?

Mr. HENDERSON. Leaving aside what I bought—

The CHAIRMAN (interposing). I think the witness ought to insist on an answer.

Mr. HENDERSON. The insurance agents who talked to me didn't talk at all as you have just been talking.

Mr. BEERS. They should have known better.

The CHAIRMAN. This colloquy between Commissioner Henderson and the witness prompts me to ask, where do the actuaries buy their insurance, or could they buy insurance?

Mr. BEERS. I just bought a little nonparticipating insurance from my own company, sir.

The CHAIRMAN. How about the rate. Do you pay the same rate everybody else pays?

Mr. BEERS. Yes, sir.

The CHAIRMAN. How about the commission? Did you pay the commission?

Mr. BEERS. No, sir. What did you say? I do not get the commission. If I were an employee I think I could get it, but being an officer, I can't.

The CHAIRMAN. Does anybody get a commission on it?

Mr. BEERS. I am making an agent do a little work for me and he will get the commission—work on the purchase of insurance, excuse me.

Mr. ARNOLD. One remark you made interested me. You spoke of the feeling of deference to those who were engaged in the prosecution of antitrust laws.

Mr. BEERS. I beg your pardon, sir, I said deference to those of our group who had some problems on the antitrust laws. I wouldn't use that word—

Mr. ARNOLD (interposing). You thought it wise, in view of that split of opinion, then, in your group as to whether the antitrust laws applied, to conceal this machinery.

Mr. BEERS. To avoid publicizing, absolutely. That is, our lawyers did not feel absolutely sure that they knew the answer; they thought the courts might have to decide something.

Mr. ARNOLD. And you also felt it wise, I take it, not to call the attention of those who were enforcing the antitrust laws to the nature of this price-fixing arrangement.

Mr. BEERS. I wouldn't know how to do that, sir.

Mr. ARNOLD. By letter or by phone or by wire or by oral conferences, are the methods I could think of.

Mr. BEERS. Do they give hypothetical decisions?

Mr. ARNOLD. It is quite frequent that this matter is opened and called to the attention of people engaged in enforcing the antitrust laws. That is the frequent procedure.

Mr. BEERS. As I said, I am not a lawyer; I couldn't answer that.

Mr. ARNOLD. But you thought it wise, on the whole, in view of the situation in your own group who were not sure about the antitrust laws, and in view of the situation of various prosecuting officers, not to make this public. Is that a fair statement?

Mr. BEERS. It is a little stronger than I would have made, sir—not much.

Mr. ARNOLD. Another question. You say that the private power to fix prices in the various areas which you think should be noncompetitive in insurance has resulted in lower rates to insurance holders. You don't think it has.

Mr. BEERS. I don't think I said that, sir.

Mr. ARNOLD. I thought you intimated it was justified because in the long run it would result in lower rates.

Mr. BEERS. No; we have had no real price fixing in this field, in the field of insurance that we have been discussing the last 2 days.

Mr. ARNOLD. Without arguing the point whether this price fixing that you have testified to is real price fixing or not, you think that that price fixing has resulted in the long run in better rates to the insured?

Mr. BEERS. That is not a conclusion which you can draw from the nonparticipating rate history. The price fixing in nonparticipating rates is 5 or 6 years old, has accomplished three increases in rate, none of which kept up with the increasing cost of rates and decreasing cost

of insurance. In group insurance there is no real price fixing at all, so you have no hesitation in group insurance in saying it has led to lower cost to the public.

Mr. ARNOLD. And you don't think that the price fixing in life insurance has led to lower cost?

Mr. BEERS. Ordinary life insurance, oh, I don't know, we have perhaps had less sufficient rates or more sufficient rates, I can't say.

Mr. ARNOLD. In any event, it has led to higher immediate costs, hasn't it?

Mr. BEERS. No, sir; I don't think so.

Mr. ARNOLD. There have been certain instances to which you have testified with respect to one policy at least where it led to higher costs.

Mr. BEERS. That was only one instance in one agreement.

Mr. ARNOLD. But in that instance it did.

Mr. BEERS. No, sir; that was an indivisible agreement.

Mr. ARNOLD. But you were induced to raise your rate; you so testified, didn't you?

Mr. BEERS. Yes; but it is not an example, I think.

Mr. ARNOLD. It is an example.

Mr. BEERS. No, sir.

Mr. GESELL. May I say, Mr. Chairman and Mr. Arnold, we have considered here only the first agreement among these three companies, and this afternoon we will proceed to consider at least two other agreements that have happened since 1933. Possibly that background would be of some advantage to the committee.

The CHAIRMAN. The subject has been a matter of such great interest that we have stayed here almost an hour overtime. We appreciate very much your patience, Mr. Beers, in responding to our questions.

The committee will stand in recess until 2:30 this afternoon. Who will be your first witness?

Mr. GESELL. I want Mr. Flynn to come back on the stand at that time.

(Whereupon, at 12:55 p. m., a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

(The hearing was resumed at 2:40 p. m., upon the expiration of the recess, Representative Reece in the chair.)

Acting Chairman REECE. The committee will come to order, please. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. Yes; I am.

Mr. REECE. Will you call the first witness, please?

Mr. GESELL. Mr. Flynn, will you return to the stand, please, sir?

TESTIMONY OF B. D. FLYNN, VICE PRESIDENT AND ACTUARY, TRAVELERS INSURANCE CO., HARTFORD, CONN.—Resumed

Mr. GESELL. Mr. Flynn, at the opening of the testimony this morning we had some discussion with respect to an exhibit entitled "Exhibit of changes in surplus, ordinary nonparticipating business."¹ Since the recess, have you had an opportunity to examine that schedule, and are you now in a position to state that insofar as the figures with respect to Travelers Insurance Co. are concerned, they are correct?

¹ Exhibit No. 662. See supra, p. 1226, appendix, p. 4717.

Mr. FLYNN. They are correct.

Mr. GESELL. They are the figures shown in the annual statements filed by the insurance companies with the insurance commissioners of various States on the gain-and-loss exhibit for the nonparticipating business?

Mr. FLYNN. Yes.

Mr. GESELL. Then I can state for the benefit of the committee that we have reexamined these figures as to the other two companies and again assert that they are correct, so I believe we have no differences on this schedule now, do we, Mr. Flynn?

Mr. FLYNN. No.

Mr. GESELL. While Mr. Beers was on the stand I read him a memorandum dated November 16, 1932, from Mr. Hammond. I ask you if you recognize Mr. Hammond's initials on that memorandum.

Mr. FLYNN. Yes; I do.

Mr. GESELL. I wish to offer the memorandum, which has already been read, for the record.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 669" and is included in the appendix on p. 4722.)

Mr. GESELL. The three companies, Mr. Flynn, raised their rates on April 1, 1933, did they not?

Mr. FLYNN. Yes.

Mr. GESELL. Those rates were uniform?

Mr. FLYNN. Yes.

Mr. GESELL. Now when did you next get together and raise rates?

Mr. FLYNN. The next rate change was January 1, 1935.

Mr. GESELL. You discussed that rate change as early as 1933, did you not?

Mr. FLYNN. I believe that is correct.

Mr. GESELL. First of all, I will ask you if you recognize this as a memorandum that you prepared.

Mr. FLYNN. Yes.

Mr. GESELL. This is a memorandum from you to Mr. Zacher, under date of December 28, 1933, entitled "Re: Proposed new program of life rates and values" [reading from "Exhibit No. 670"]:

A meeting on the above subject of officials of the three local stock life companies was held on Wednesday morning, December 27, at the Aetna.

Mr. Cammack proposed that the Travelers, Connecticut General, and Aetna increase present life rates for all forms, excepting term, by changing the interest basis from 4 to 3¾ percent. This would mean an increase upon the average (for forms other than term) of approximately 2½ percent or 75 cents per thousand. The increase would be somewhat less for ordinary life than the average and somewhat more for the higher premium forms.

Skipping some, your memorandum states:

You will recall that when life rates were under discussion last year, although rates and values agreed upon were generally satisfactory to us, nevertheless, we would have been glad to have even higher rates and lower values but could not get the Aetna to concur at that time.

Mr. Laird said that the Connecticut General was not convinced that this move would be a wise one at the present time and that they would like to wait at least until the end of February before making a decision.

Then skipping still further in the memorandum, I want to call your particular attention to this sentence [reading further]:

It was pointed out that recent mutual dividend reductions relieved the competitive situation somewhat and that the trend toward smaller policies means

that competition will be less of a consideration in the next few years, thus indicating that the traffic might stand a rate increase.

What do you mean by that particular sentence in your memorandum, Mr. FLYNN, that "The traffic might stand a rate increase"?

Mr. FLYNN. In life-insurance sales the competition of the net cost of the participating companies and nonparticipating rates is very intense, very important. If the participating companies were going to reduce dividends at that time or soon afterward, the nonparticipating companies could increase their rates if they felt they should be increased, whereas if they didn't make a modification of the dividends, we might not be able to effect the increase at that time because of competitive reasons.

Mr. GESELL. In other words, you would continue to sell policies on a basis which you didn't think was actuarially sound in order to compete with the participating companies.

Mr. FLYNN. We might have to delay our increase in rates and forsake some mild profits, or something of that kind.

Mr. GESELL. So when you say that you believe the competitive situation would permit a raise, that the traffic would stand the rate increase, you meant that you thought you could raise the rates which would assure you of greater profits and which would insure the policyholders greater protection, without hurting your competitive position.

Mr. FLYNN. That is it.

Mr. GESELL. Now, the last paragraph in the memorandum states [reading further from "Exhibit No. 670"]:

The general question of changing the present life program was left with the understanding that the Travelers and Connecticut General would study over the matter further, discuss it among their company officials, and report at a later meeting.

May I offer this memorandum for the record?

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 670" and is included in the appendix on p. 4722.)

Mr. GESELL. Do you recall a later meeting which was held with respect to this matter?

Mr. FLYNN. I don't recall it offhand.

Mr. GESELL. May I show you this memorandum and ask you if you recognize it as one which you prepared?

Mr. FLYNN. Yes; I do.

Mr. GESELL. This memorandum is again from you to President Zacher, dated February 15, 1934, entitled "Re: Proposed new program of life rates and values."¹ It states [reading from "Exhibit No. 671"]:

Another meeting on the above subject of officials of the three local stock life companies was held Wednesday morning, February 14, at the Aetna.

Then skipping a paragraph, it states:

Mr. Laird stated that it was the feeling of the Connecticut General at this time that they would not go along with a program of increased rates and decreased values. In any event, if they change their mind later, they would not put the new program into effect before January 1, 1935. They felt that financial and business conditions had improved materially in the past 2 months; that the farm situation was improving, and good bonds could be purchased to net 4 percent or more.

¹ Subsequently introduced as "Exhibit No. 671"; see appendix, p. 4723.

Laird felt that participating competition was still severe, citing that of New England Mutual, Provident Mutual, Metropolitan, etc.; he thought that conditions had improved sufficiently to permit nonparticipating agents to work out the more advantageous competitive position that they would have against the majority of participating companies during the next year or two.

The result of that conference was, then, that you were still not in agreement on a new program for rate increase, is that correct?

Mr. FLYNN. That is correct.

Mr. GESELL. Your company and the Aetna were willing to increase rates.

Mr. FLYNN. Yes.

Mr. GESELL. The Connecticut General was not willing to go along with you.

Mr. FLYNN. Correct; at that time.

Mr. GESELL. Why didn't you just raise rates?

Mr. FLYNN. Because we wanted to act in harmony, the three of us.

Mr. GESELL. Why?

Mr. FLYNN. Because to gain that advantage of joint knowledge and not have a break-up of the original arrangement.

Mr. GESELL. What do you mean, advantage of joint knowledge? You had the knowledge; you could go ahead and raise the rates after you had the knowledge, even though you didn't all agree.

Mr. FLYNN. We didn't have a consensus of opinion that we had before.

Mr. GESELL. You mean now you only had a 66 $\frac{2}{3}$ percent vote in favor of increasing rates and therefore you weren't going to do it.

Mr. FLYNN. We weren't going to do it at that time. We preferred to delay it.

Mr. GESELL. Your company thought it should raise rates, didn't it?

Mr. FLYNN. Well, we would like to. We didn't make it imperative. That really is less than a year after the preceding change, which is rather frequent change.

Mr. GESELL. This memorandum indicates clearly that your company and the Aetna agreed there should be a rate increase.

Mr. FLYNN. We thought the investment situation would take care of it and it did not. The investment situation was improving, but we preferred to have the consensus of opinion of the three companies.

Mr. GESELL. You say the consensus of opinion of the three. What you really mean is that you were afraid if you didn't have the consensus of the opinion, the Connecticut General would be able to take away business from you because it was selling at a lower rate. Is that what you mean?

Mr. FLYNN. Not exactly. If we had agreed on the change of rates at that time, the Aetna and the Travelers, it would probably have been 6 months before we could get the new manual out.

Mr. GESELL. At any event, if you could have agreed, you would have put the program into effect. Why didn't you do it?

Mr. FLYNN. Because we thought it was better judgment to wait. It wasn't an urgent matter. It was a matter of opinion. We preferred to wait.

Mr. GESELL. Until you could get uniformity and complete unanimity of agreement.

Mr. FLYNN. That is it.

Mr. GESELL. I wish to offer this memorandum for the record.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 671" and is included in the appendix on p. 4723.)

Mr. GESELL. Now the big thing that worried the Connecticut General in this situation was, was it not, that certain policies of the Provident and of the Metropolitan and of the Prudential were being sold at a gross premium which was so low that the nonparticipating policies of the Connecticut General could not compete with them if this new rate increase went into effect. Is that not so?

Mr. FLYNN. I am not certain of the date.

Mr. GESELL. May I call that memorandum to your attention?

Mr. FLYNN. That is the proposed scale of rates that we were discussing at that time.

Mr. GESELL. Was it not a fact that the Connecticut General did not want to go along with those rates because it was fearful of the competition which it would receive from the Metropolitan, the Prudential, and the Provident Mutual?

Mr. FLYNN. Right.

Mr. GESELL. This memorandum refers to another meeting of the two stock companies held February 27, 1934, and states [reading from "Exhibit No. 672"]:

Although the Connecticut General were not prepared at this time to offer any further encouragement as to finally going along with the Aetna-Travelers' program, they were agreeable to go ahead with us in the preparation of rates, leaving their decision with regard to preparation of values until after the senior actuaries meeting, March 2. After further discussion of the new program as affecting various forms, it was decided to call a conference with those participating companies whose gross rates in our opinion should be increased, particularly at the older ages.

A meeting has been called of the Metropolitan, Prudential, and Provident Mutual, with the three local companies in New York for March 2. In conversation with Mr. Craig of the Metropolitan over the phone, it was apparent that the New York companies are ready to report rather definitely in regard to what can be expected in the way of decreased surrender values. It was also apparent from conversation with others that these companies are in a mood to consider modification of gross rates, particularly at the older ages.

Now what did you mean, in this memorandum, Mr. Flynn, when you said that it was decided to call a conference with those participating companies whose gross rates, "in our opinion should be increased"? Do I gather that you even tell your competitors when they should increase their rates?

Mr. FLYNN. We don't tell them, we try to persuade them.

Mr. GESELL. In the interest of increased competition?

Mr. FLYNN. No; in the interest of good actuarial work.

Mr. GESELL. In other words, here you are actually going to the extent, you nonparticipating companies, of approaching your principal participating company competitors in an effort to get them to increase their rates, were you not?

Mr. FLYNN. Correct.

Mr. GESELL. I wish to offer this memorandum for the record. It is dated February 27, 1934.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 672" and is included in the appendix on p. 4724.)

Mr. GESELL. Such a conference was held, was it not?

Mr. FLYNN. Yes.

Mr. GESELL. Do you recognize this memorandum which I show you as a memorandum of that conference?

Mr. FLYNN. Yes; that is correct.

Mr. GESELL. Who called that meeting?

Mr. FLYNN. I can't recall.

Mr. GESELL. Did the nonparticipating companies call it or did the participating companies call it?

Mr. FLYNN. I can't say. I didn't read that memorandum.

Mr. GESELL. Let me read the memorandum to you and see if it refreshes your recollection. It is again a memorandum from you to Mr. Zacher, dated March 7, 1934, and it is entitled "Re: Proposed New Program of Life Rates and Values—Conference with Metropolitan, Prudential, and Provident Mutual"¹ [reading from "Exhibit No. 675"]:

Officials of the three local nonparticipating companies met with officials of the Metropolitan, Prudential, and Provident Mutual in New York, March 2. Each of the three companies last named has a special contract with initial gross rates lower than our proposed nonparticipating premiums. The Prudential's "Modified 3" and the Provident's "Protector" (Modified 2) carry materially lower gross rates at all ages than our proposed nonpar premiums and the Metropolitan's "Special Ordinary Life" at age 45 and above. (The Phoenix Mutual has a low premium form but no one seemed to be fearful of that company's competition.)

Are you following me so far, Mr. Flynn? It goes on to state:

All factors bearing upon the cost of life insurance were thoroughly discussed, particularly the probable future rate of interest. Somewhat to our surprise, we learned that the Prudential are seriously considering an increase in rates and reduction in values. Mr. Little, of the Prudential, stated they would probably change their rates by substituting 3 for 3½ percent in the formula. He was going to arrange his rates so that the company could get by on a rate of interest as low as 2½ percent—if dividends were omitted. Mr. Craig, of the Metropolitan, had been considering changes, but his statements were much less definite. He expected to talk with Mr. Ecker this week and in the course of 10 days would have more definite information to report. The Metropolitan, however, will undoubtedly decide to increase its rates and decrease its surrender values soon. Both the Prudential and Metropolitan thought that they could not prepare their manuals so that the change could be effective before January 1, 1935.

Mr. Linton, of the Provident Mutual, was away but sent Vice President Marshall, who stated that while he could not commit his company his personal feeling was that their rates would be increased, including a complete revision and increase in the "protector" policy premiums.

Then you go on to discuss the opinions of some of the other men present, and state toward the end of the memorandum [reading further from "Exhibit No. 675"]:

Mr. Craig stated that the Mutual Life and New York Life were willing to follow the Prudential, Metropolitan, and others in a reduction in surrender values, but that the Equitable was standing out for very slight changes. Mr. Little stated that Mr. Duffield would endeavor to see Mr. Parkinson some time this week and try to get the Equitable to be more cooperative. It was felt that if the Equitable did not come along, the New York Life would also decline to make a change.

It is probable that in the course of two weeks, we shall hear more definitely from the Metropolitan—and possibly from the Provident.

¹ Subsequently entered as "Exhibit No. 675," *infra*, p. 4728.

Is that the way you meet with your competitors to iron out the differences between you with respect to rates?

Mr. FLYNN. I think, Mr. Gesell, that is more nearly a meeting of actuaries, professional men interested in their work, and it has that guise really rather than competing companies.

Mr. GESELL. You mean this is sort of like the Harvard-Yale football teams going out to a dance together after a big game?

Mr. FLYNN. I would think so. Actuaries meet quite often to discuss professional problems.

Mr. GESELL. Really you were not only actuaries, you were officials of your companies, you were meeting and discussing mutual problems and reaching decisions, were you not?

Mr. FLYNN. I don't know that we reached decisions; we tried to persuade one another and argue matters out.

Mr. HENDERSON. Mr. Flynn, Mr. Craig expected to talk with Mr. Ecker and somebody expected to talk with Mr. Duffield, and Mr. Linton sent Vice President Marshall, who could not commit his company, but his personal feeling was that their rates would be increased. Now, Ecker, Duffield, and Linton are not the actuaries of their companies but the chief executives, are they not?

Mr. FLYNN. That is right.

Mr. HENDERSON. So there was something more than a professional actuarial meeting.

Mr. FLYNN. It was something more than that. It was—to crystalize the opinions of the advisory staff—was the main thing.

Mr. HENDERSON. And they were in pretty close conjunction with the executive officers who had been thinking about this problem also.

Mr. FLYNN. I think the executive officers had considerable weight.

Mr. GESELL. And what you were anxious to accomplish was, was it not, a desire on your part to get an agreement from these three low-gross-rate participating companies to raise rates which would enable you to get the Connecticut General to come into line with the Aetna-Travelers program for nonparticipating rate increase?

Mr. FLYNN. I think that is pretty nearly true. I will repeat what I said this morning, that all actuaries at that time, along in 1934, were fearful of the future rate of interest, and very anxious to get onto a more conservative basis, and I think it was that urge as much as anything else rather than simply to raise rates and to get companies in line, which compelled us all to get together.

Mr. GESELL. As an actual matter what happened was, was it not, that your company, the Travelers, the Connecticut General, the Aetna, the Metropolitan, the Prudential, the Provident Mutual, the six companies present at this conference, all announced the rate increase simultaneously on January 1, 1935?

Mr. FLYNN. I really can't say about the three participating companies, but the three nonparticipating did.

Mr. ARNOLD. You don't seriously contend, do you, that this wasn't a somewhat informal method of fixing rates?

Mr. FLYNN. No; I won't say that it was not an informal effort to persuade the actuaries of the companies to look at it in the same way.

Mr. HENDERSON. This line of the actuary as a professional and technical man and the line of the actuary as an operating officer of the company come together at times, don't they?

Mr. FLYNN. Periodically they meet; they are all members of the actuarial society.

Mr. HENDERSON. My point is that where he has a status, as it has sometimes been called, of a digit hound, or is strictly concerned with figures, and where he comes into action as an executive in determining policy, sometimes those two functions which a single man like yourself performs run together and the line gets a little confused. You can't distinguish which is the policymaking director and which is the actuary.

Mr. FLYNN. That is quite correct.

Mr. GESELL. I would like to call your attention, Mr. Flynn, to the National Underwriter, Life-Insurance Edition, of December 21, 1934. I think you will notice on that page the announcement of the rate increases of all three of the companies that you did not recall—the Provident, the Metropolitan, and the Prudential. Does that not refresh your recollection as to the rate increases that simultaneously were those of the nonparticipating companies?

Mr. FLYNN. The Prudential, Metropolitan, January 1, apparently, and the Provident Mutual, March 1.

Mr. GESELL. And what is the date the three Hartford companies increased?

Mr. FLYNN. January 1, 1935.

Mr. Chairman, I would like to make this point: That the three participating companies were raising their gross rates, not their net rates; the nonparticipating companies were raising their net guaranteed rates; but the participating companies were only raising their gross, initial rate, you might call it.

Mr. GESELL. But we have already considered here, have we not, Mr. Flynn, the fact that the Connecticut General was concerned by reason of the fact that its nonparticipating rates were higher in some cases than the gross participating rates of the participating companies? As a result, they would obviously not be able to sell any insurance if they tried to sell a nonparticipating policy which had a higher gross rate than the gross participating policies of these large participating companies.

Mr. FLYNN. That is correct, Mr. Gesell; but I think they were afraid of the proposed nonparticipating rate rather than the current nonparticipating rate.

Mr. GESELL. Yes; the proposed rate would have that result, unless you could get these participating companies to jack up their rates, too.

Mr. FLYNN. Yes.

Mr. HENDERSON. You don't mean they wouldn't be able to sell any. You mean that their competitive position would be jeopardized.

Mr. GESELL. Well, it would be a very serious position.

Mr. HENDERSON. A serious jeopardy, but it doesn't mean their business would be completely terminated.

Mr. GESELL. No; they would have a difficult competitive situation, would they not?

Mr. FLYNN. Yes; a difficult competitive position with those companies.

Mr. HENDERSON. I want to keep my position that insurance is not always sold on the basis of cost. I ask you to protect that once in a while.

Mr. GESELL. These are all gross rates.

Mr. Flynn, may I ask you to step down from the stand? I want to call Mr. Howell for a moment, if the committee agrees.

Acting Chairman REECE. Do you solemnly swear that the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HOWELL. I do.

TESTIMONY OF VALENTINE HOWELL, VICE PRESIDENT AND ACTUARY, PRUDENTIAL INSURANCE CO. OF AMERICA, NEWARK, N. J.

Mr. GESELL. What is your full name, please, sir?

Mr. HOWELL. Valentine Howell.

Mr. GESELL. You are associated with the Prudential Insurance Co., are you not?

Mr. HOWELL. Yes; I am vice president and actuary of Prudential.

Mr. GESELL. You have heard the testimony of the last witness, have you not?

Mr. HOWELL. I have.

Mr. GESELL. Are you familiar with the facts and circumstances surrounding the rate increases announced by your company, the Provident, and the Metropolitan in the first of 1935?

Mr. HOWELL. In a general way I am.

Mr. GESELL. Will you tell us what your recollection in respect to that is, please?

Mr. HOWELL. About in the fall of 1933 the Prudential actuaries came to the conclusion that our gross premium rates were too low for safety. We at that time had rates computed on the 3½-percent basis. We made some computations in the fall of the year on a 3¼-percent basis and were interrupted by the year end. In the following March Mr. Little attended this conference of which Mr. Flynn spoke.

Mr. GESELL. Mr. Little was your superior; was he not?

Mr. HOWELL. Yes; he was at that time vice president and actuary of the company and I was associate actuary.

Mr. GESELL. He is now deceased?

Mr. HOWELL. Yes; that is correct—and he made a summary or a memorandum summarizing the proceedings at that meeting.

Mr. GESELL. Do you recognize this memorandum as the memorandum which he prepared at that time and that is his signature? ¹

Mr. HOWELL. I do.

Mr. GESELL. Following that conference and subsequent conferences which the three companies held, there was an agreement for raising of ordinary premium rates, was there not?

Mr. HOWELL. We had determined upon an increase of ordinary premium rates and such an agreement was an aid to the fact.

Mr. GESELL. What was the net result of those increases so far as your three participating companies were concerned? Were they more or less in line with each other and on a uniform basis?

Mr. HOWELL. They were more or less in line with each other. They were not on a uniform basis. I am not quite sure what you mean by that term.

¹ Subsequently entered as "Exhibit No. 673," see appendix, p. 4725.

Mr. GESELL. I had in mind a memorandum which appears to have been written by you under date of June 12, 1934,¹ the last paragraph in which you state, after referring to the meeting [reading from "Exhibit No. 674"]:

The rates described above are believed to be reasonably consistent with those tentatively decided upon by the Metropolitan and Provident Mutual.

Mr. HOWELL. Yes; that is a correct statement.

Mr. GESELL. In other words, the rates of the three companies following this rate increase were more or less in line with each other were they not?

Mr. HOWELL. Yes.

Mr. HENDERSON. That was arrived at by general agreement, was it not?

Mr. HOWELL. I don't recall that we made any modification of our rates, of our ideas, after the meeting. Of course, I was not present at this meeting and the meeting occurred 5 or more years ago.

Mr. HENDERSON. My point was there was a general agreement between those companies. Will you read the language again?

Mr. GESELL. This is your memorandum?

Mr. HOWELL. Yes; that is my memorandum.

Mr. GESELL. That memorandum states [reading from "Exhibit No. 674"]:

The rates described above are believed to be reasonably consistent with those tentatively decided upon by the Metropolitan and Provident Mutual.

Mr. HOWELL. Yes; and we were interested in seeing that other companies in their rate increases were reasonably consistent with our own for competitive reasons.

Mr. GESELL. Your final decision grew out of perhaps two or three conferences which were held from the time of this first six-company conference of March 2, 1934, until the rates were finally announced in 1935.

Mr. HOWELL. That is possible, Mr. Gesell.

Mr. GESELL. Were there any other factors which prompted your three companies in raising the rates at this time?

Mr. HOWELL. I think the reasons that lay behind our increases in rates so far as the Prudential is concerned are very ably set forth in this memorandum to which you have referred. I suggest you read it if you care to.

Mr. GESELL. With respect to that memorandum which discusses at considerable length expected interest rates and some other technical matters, I was particularly interested in this portion of the memorandum. It states [reading from "Exhibit No. 673"]:

Up to the time of the depression the three large nonparticipating companies domiciled in Hartford had enjoyed very large annual earnings and seemed to be well provided against contingencies. The severe losses of the depression have sharply reduced the surpluses of these companies, and the fall which has already taken place in the interest rate has reduced the normal annual margin very substantially. In the opinion of the two larger companies which raised their rates at certain ages about a year ago, the necessity for a further increase in premiums has become quite acute. They are, however, very much hampered in the matter of premium rates by the fact that the premiums of the three participating companies referred to are so low that a moderate increase in the nonparticipating rates would bring them very close to the par-

¹ Entered later as "Exhibit No. 674," see appendix, p. 4727.

ticipating rates of the companies mentioned, and at some ages even above these rates. From the point of view of this and the other participating companies concerned, therefore, we are in the position, by reason of our present premium rates, of holding down the rates of the nonparticipating companies. If insufficient rates should eventually result in the wrecking of these great nonparticipating companies, a very severe blow would be given to the life-insurance business, so that, for our own protection, it is desirable that our gross rates should not be so low as to make it difficult for the nonparticipating companies to increase their premiums to rates which shall be adequate and still appear less to a reasonable extent than the rates of any responsible participating company.

Do I understand from that memorandum that there was any concern among the three participating companies that the three nonparticipating companies were in serious financial difficulties?

Mr. HOWELL. I don't know that I have much to add to the wording of the memorandum, Mr. Gesell. It seems to speak for itself.

Mr. GESELL. Quite the contrary, it is true that companies were declaring dividends, were they not, and according to the schedule we have in the record, during the year 1934, all three of the companies had made money in the operation of their nonparticipating departments.

Mr. HOWELL. I think, Mr. Gesell, in looking at current earnings only you are overlooking a very serious additional factor, and that is the future. In other words, at that time, or during the current year in 1933, there was a vast reservoir of investments on the nonparticipating company books at interest rates that were available some years ago when those investments had been made, and which were no longer available. Mr. Little was looking forward, if you will recall this in the memorandum, where he speaks of what to him seems to be a decided probability of very low interest rates extending over a very long period. Now, it might well be that in 1933, the cash position, so to speak, would be a proper basis, and yet these rates were being guaranteed for long periods in the future, and I think he was decidedly worried about that phase of the situation.

Mr. GESELL. You mean over a great number of years, maybe as many as 30 or 40, the companies might under certain circumstances which weren't certain to occur, get into some degree of financial difficulty.

Mr. HOWELL. Yes.

Mr. GESELL. Why should that be a factor, Mr. Howell, in a determination made by three participating companies with respect to what rates they should charge? That is the nonparticipating companies' problem, is it not?

Mr. HOWELL. Don't you think the memorandum itself sets forth why that is a factor? If there had been any large and important failures in the life-insurance business, whether participating or nonparticipating companies, we all would have felt the resulting resentment in public opinion. I think that is a very serious factor. We had no desire to have trouble.

Mr. GESELL. Isn't that the excuse that is quite customarily made whenever people get together to fix rates—that if they don't have some bottom to their rates there is going to be somebody who is going to get hurt and the whole business is going to be hurt?

Mr. HOWELL. I don't know whether that is customarily made, but I am certain that Mr. Little was very sincere in taking this position, and I, for one, agree with him.

Mr. ARNOLD. I can assure you that is the excuse that is always made. I don't doubt his sincerity, and the effect of the thing, I take it, is that you wanted to hold an umbrella over the less efficient companies in the business, even although that involved raising your rates more than was necessary, and even though that involved an additional expense to the people who were taking out insurance.

Mr. HOWELL. May I interrupt to say we did not raise our own rates, in our opinion, one cent more than was necessary. This factor Mr. Little speaks of, and the memorandum so states, was a minor factor. We had previously started our calculation looking toward rate increase. I think, if you have not read Mr. Little's memorandum in its entirety,¹ you perhaps get a wrong impression of the conclusions he was drawing from it. I know that your time is short, but I suggest Mr. Gesell read it all. It would be very helpful.

Mr. ARNOLD. May I state I do not doubt, as in all price-fixing agreements, the parties believed that from the point of view of maintaining all the units on an even keel the raise was necessary.

Mr. HOWELL. In the first place, it wasn't an agreement, sir; but once again we were not primarily motivated by this question of what was happening to the nonparticipating company; we were primarily motivated by what was going to happen to ourselves. We knew that interest rates were going to be low; we didn't know they would be as low as they turned out to be later. We thought our rates were too low to give us a necessary safety margin. We knew further, as a participating company, that, had the rates been increased too much, we would simply have increased policy dividends. We knew we were doing the insured public no injustice and we needed the additional safety factor.

Mr. ARNOLD. The thing I am directing my question to relates not to your own belief that the increase was necessary, but to your belief that a certain informal or formal concerted action was necessary. Now, the effect of agreements like this of course is to eliminate the daring competitor, isn't it?

Mr. HOWELL. But I can't follow you that there was an agreement. As far as that was concerned, we needed to increase our rates. Other companies, presumably, needed to increase theirs, but we couldn't choose a different date to do something else to stay away from the appearance—

Mr. ARNOLD (interposing). Let me delete the word "agreement" and say getting together. There was a getting together.

Mr. HOWELL. There was certainly a getting together.

Mr. ARNOLD. And a getting together which tended to eliminate the competitive factors in the industry.

Mr. HOWELL. I differ from that. I see no compulsion we could have exercised on any of those companies to make any difference in what they did. We wanted them to come along, and they independently, apparently, wanted to come along, but we had no means of making them do anything they didn't want to do.

Mr. ARNOLD. The getting together, I do not suggest, was made under compulsion, but it is a getting together and it does have that effect upon competitive factors.

¹ See "Exhibit No. 673," appendix, p. 4725.

Now, may I ask you, just for the purpose of the record, whether you considered in getting together for this purpose such things as anti-trust laws, or was that not considered at all?

Mr. HOWELL. In our case it wasn't considered at all, because we felt there was absolutely no question on our part. We needed the rate increase.

Mr. ARNOLD. First, you needed the rate increase.

Mr. HOWELL. That should not be forgotten.

Mr. ARNOLD. And, second, you needed the getting together.

Mr. HOWELL. To a much more minor extent.

Mr. ARNOLD. Because the getting together avoided the competitive disadvantages which might otherwise have followed from the rate increase.

Mr. HOWELL. Well, you see, in the case of a participating company, particularly, it is true that we would rather have our competitors raise rates when we do, but in the participating field the rate charges are not of primary importance. A number of large, prosperous participating companies now charge substantially higher rates than we charged after this increase. There are various groups of participating premium rates, do you see? I am quite prepared to admit that a change, an increase in premium rates in itself, may have had some effect on competition, but as long as you keep in mind that the rate was participating you can see that was a minor influence.

Mr. GESELL. There must have been some desire for uniformity or you wouldn't have met.

Mr. HOWELL. That is certainly true, and it is an influence, but a minor one.

Mr. ARNOLD. It justifies a paragraph which indicates a fear in your mind that if there was a getting together it might have disastrous effects on the Hartford companies.

Mr. HOWELL. Yes; I think that expresses our views very well, and still does.

Mr. ARNOLD. So I wonder if you can say in view of the rather strong language of that paragraph that that really was a minor consideration.

Mr. HOWELL. I think I still would say it was a minor factor.

Mr. HENDERSON. The memorandum says [reading from "Exhibit No. 673"]:

An additional and quite important factor has entered into it.

Mr. HOWELL. But it was additional.

Mr. HENDERSON. But you are now subjecting it to the test that it is a minor matter; as against a quite important factor it is now a minor matter. Mr. Morris says it is a quite important factor.

Mr. HOWELL. Mr. Little said.

Mr. HENDERSON. I mean Mr. Little.

Mr. HOWELL. I quite agree it was important but relatively I am trying to say it was minor.

Mr. HENDERSON. But not a minor matter.

Mr. HOWELL. No; of course it wasn't. I don't wish to leave the implication that this was something that occurred to us and was dismissed. It was important yes.

Mr. HENDERSON. It was important.

Mr. HOWELL. But relatively it was far more important for us to have sufficient rates, do you see?

Mr. HENDERSON. It is certainly always important to a competitor to have sufficient rates.

Do you mind if I finish the sentence?

Mr. HOWELL. Not at all.

Mr. HENDERSON. It is always quite important to any competitor to have sufficient rates, isn't it?

Mr. HOWELL. Why, of course.

Mr. HENDERSON. It is much more important to a competitor to have rates sufficient for him to cover his costs and to make a profit than it is to hold an umbrella over the rest of the industry, so that they can win also. I am willing to accept that distinction.

Mr. HOWELL. I think I started to say, and I think it is important enough to volunteer it, that we would have raised our rates in any event, without respect to what action the other people took. As a matter of fact, 4 years later, last December, we raised our rates again. We were interested in getting other people to go along with us but they didn't go, and we nevertheless made the increase in rates. I am trying to give you the idea of the relative importance to us of the increase.

Mr. GESELL. One thing that prompts the question of the committee, I am sure, is the fact that in the early days of these hearings this question came up in the testimony of both Mr. Ecker and Mr. Buckner. You will recall Mr. Ecker stated on February 7, 1939, on page 46 of the transcript:¹

Competition compels the stock companies to come pretty close to meeting the cost of insurance issued by the mutual companies.

and Mr. Buckner, chairman of the board of the New York Life, later stated, on February 15, page 146 in the record:²

The mutual life-insurance companies are the factor that keep down the costs on stock companies as well as the mutual companies. In other words, they are the bulwark. Stock companies have to meet the issue or go out of business.

It seems to me here we have just the opposite fact clearly established on the record, that the mutual companies, the participating companies, were raising their rates, and one of the factors involved was the very factor of preventing any harm coming to the nonparticipating companies.

Mr. HOWELL. I think you will find upon analysis or a rereading of that testimony that Mr. Ecker was referring to the net cost of the participating companies, which is a different thing entirely from the rates, obviously. In other words, we have a modified-3 policy with a low initial rate, but with a provision for an increase in rate after 3 years, which is, and should be, offset by dividends.

But if our dividends, our earnings, are sufficient, it may be we will more than offset it by dividends, and it is the net cost that counts in the long run.

Mr. GESELL. You just heard Mr. Flynn testify that the Connecticut General wouldn't go along unless the participating companies raised their rates, and the result of the raise of the rates to the participating

¹ See Hearings, Part IV, p. 1246.

² Ibid., p. 1423.

companies was to enable the nonparticipating companies to put an entirely new rate program into effect at a higher rate.

Mr. HOWELL. But the point I am making is, Mr. Gesell, that it was incidental with us, and I think you will find with other companies.

Mr. ARNOLD. You would admit that where companies do get together in this fashion almost inevitably the tendency is to adopt the policy of "get along together" and raising of rates.

Mr. HOWELL. I wouldn't be prepared to admit that, unless the individual companies felt the increase was necessary.

Mr. ARNOLD. Do you know of a meeting to lower rates?

Mr. HOWELL. I don't think there has been any occasion to lower rates within the past 10 years, since 1929. Before that I was not of an age where I would know much about it.

Mr. ARNOLD. I was merely suggesting that experience generally in industries where the members do get together on formal or informal price fixing results always in meetings to raise rates, and within the last 10 years not in meetings to lower rates.

Mr. HOWELL. I submit to you that when it is a question of lowering rates, it isn't necessary to get together.

Mr. ARNOLD. That is exactly what I was saying. The tendency of getting together is always to raise them.

Mr. HENDERSON. I want to return to something which I feel is very important. I think Mr. Howell is trying to make a distinction here which is an important one, and certainly important to this committee. He is trying to make this distinction, that the live-and-let-live policy is one part referred to in this memorandum and is of lesser or minor importance than the necessity which the Prudential had for covering its costs.

Now, this committee, as I see it, is tremendously interested in the relation between costs and prices. In the resolution which created the committee,¹ and in the message of the President which gave rise to the creation of this committee,² there was a tremendous emphasis on the matter of prices and their relation to costs, the setting aside of competitive arrangements, and the entering into agreements on uniform prices. I know of no subject that the committee staff has addressed itself to with more time and attention than the relation between costs and prices.

We haven't adduced that information in public hearing, up to the present time, but the technical staffs of several departments are at work. For example, we have an extensive study in the Procurement Division of the Treasury, in which we have covered for the first time a very large sample of the prices at which the Government buys, what is the nature of the identity of price, how important it bulks, and in which industries it bulks. At the same time, the Department of Labor and the Bureau of Labor Statistics, which is the residual place where prices are tabulated, have had going for upward of 9 months now a study of prices, and prices in relation to costs.

The Federal Trade Commission has given considerable attention to cost studies. We have drawn on the Tariff Commission, also, so we are interested in prices and in costs and are taking up a number of individual industries.

¹ Public Res. No. 113, see "Exhibit No. 2," Hearings, Part I, appendix, p. 192.

² See "Exhibit No. 1," Hearings, Part I, appendix, p. 185.

I don't want to get into any feeling, Mr. Howell, on your part, that we are not interested in this very necessary effort on your part to make your rates cover your costs in order that your companies might live. I do hope that in your testimony you will undertake to have regard for the fact that it would be pretty difficult, except over a long period, as you have suggested, for any company to be destroyed by a failure to cover costs by a small amount, because the mortality part of any insurance charge, as was developed this morning, is an extraordinarily large part of it, so that there is that minimization of risk.

On the 'other hand, although the committee is essentially and basically interested in costs and prices, we have continuously this question of the areas in which the ordinary concepts of the American public, upon which our traditional laws are based, have assumed no setting aside of competition and no consideration of a live-and-let-live policy, and we are decidedly interested in this relatively new phenomenon as it begins to appear in recent years in your own industry.

I just wanted to make that distinction here.

MR. HOWELL. If you will let me make just one comment in that connection, I think it would be useful to bear in mind that a life-insurance contract is a continuing contract. I imagine most of the other commodities whose prices you have studied deal with transactions over and done with. Unfortunately in a life-insurance contract we have to estimate, and let me say that rate-fixing is not an exact science. You probably realize by this time it can't be.

MR. HENDERSON. We are beginning, despite some of the testimony, to recognize that.

MR. HOWELL. And, therefore, we are in a very unfortunate position if we fix a rate that must roll on into the years and find that that rate isn't adequate. That does strike me as being an important factor for your consideration.

MR. HENDERSON. We are interested in that because, as you say, a price that is fixed usually has to do with one contract and then it is terminated. But, on the other hand, just as you emphasize the continuing nature of your service, the amount of money which is expended from the ordinary family income for insurance bulks very, very large, and so everything which has to do with rate-fixing, or price-fixing, affects a large part of the expenditures, and therefore becomes increasingly important.

MR. HOWELL. I quite agree.

MR. ARNOLD. Would you take the position, assuming that uniform rates must be fixed by companies (make that assumption for the moment), that it should be done without the participation of some public regulatory body?

MR. HOWELL. It has always seemed to me that we have fairly active regulatory bodies in the State insurance departments. I don't know; it was long before my time, but my impression is that the Hughes' investigation, for example, was very largely concerned with the results of undisciplined competition. I may be wrong on that. I would like to be set right.

MR. ARNOLD. I was making the assumption, for the moment, that undisciplined competition should be eliminated, which I take it is your own assumption.

Mr. HOWELL. I would certainly say that competition should not be eliminated in toto in the life-insurance business.

Mr. ARNOLD. But in respect to rates I was assuming that you believed that either formally or informally there should be concerted action.

I take that to be your belief.

Mr. HOWELL. Yes; I think so.

Mr. ARNOLD. In the light of that belief, may I ask you whether you think that such concerted action ought not to be supervised by some rate-making body?

Mr. HOWELL. Well, I think that the important—now let me confine myself for the moment to participating life insurance.

Mr. ARNOLD. All right, participating life.

Mr. HOWELL. The initial rate charge is important, but the cost to the policyholder obviously is the amount he pays less the dividends returned to him year after year, so the initial rate is not—whether that is fixed or whether as at present it varies from one company to another—I don't think it is of primary importance. The net cost results inevitably in competition and differs with each company—has to differ.

Mr. ARNOLD. To have this power to fix the rate in private hands without public supervision is the way you would have it?

Mr. HOWELL. Yes.

Mr. ARNOLD. May I ask another stock question which I have asked many other witnesses. You wouldn't apply that to any other business than insurance? You wouldn't apply that to public utilities, would you?

Mr. HOWELL. You are asking me something about which I know very little. I wouldn't say whether there was—

Mr. ARNOLD (interposing). If you had to vote on abolishing the Interstate Commerce Commission, you wouldn't vote to abolish it?

Mr. HOWELL. No; that is right.

Mr. ARNOLD. Therefore, you must have a feeling that somehow you are different than railroad executives.

Mr. HOWELL. Well, I have a feeling that we are already supervised very extensively, and I frankly fail to see the necessity for any further supervision.

Mr. GESELL. May I ask just in that connection one question, and then I am through, Mr. Howell. Do you know of any case where, when the companies have gotten together on a uniform rate program, they have invited the insurance commissioners of all the States in which they sell insurance to come and meet with them in a meeting, including those States which have rather vigorous antitrust laws against life-insurance activities and activities of that character, explained to those people just exactly what they are doing and when they are getting together and what decisions are prompting them to reach this uniform program? Have you ever heard of that happening?

Mr. HOWELL. No, I haven't.

Mr. GESELL. So when you say that the State superintendents of insurance regulate you, you are talking about regulation in fields other than the field of rate-fixing, aren't you?

Mr. HOWELL. My impression is that the superintendents have—at least the State actuaries have—quite ample knowledge of our rates. Am I correct? May I ask my counsel?

Mr. GESELL. Yes.

Mr. HOWELL. Am I correct in a number of States we file our rates? I am quite certain that we did in the State of Washington, for example. We file them as a matter of information.

Mr. HENDERSON. But you don't file evidence of concerted action.

Mr. HOWELL. Not because we are concealing it, particularly.

Mr. HENDERSON. You differ in that from a previous witness, don't you?

Mr. HOWELL. Well, of course, once again I get back to the belief that we don't have concerted action except incidentally, because I can't go past the thought that we needed this increase in rates, and we had to have it. And when we needed another increase in rates last December we made it, anyhow.

Mr. HENDERSON. But you don't want to go past the bald fact, however, that there was a concerted action.

Mr. HOWELL. You mean that there was on this occasion?

Mr. HENDERSON. Yes.

Mr. HOWELL. No; that existed.

Mr. GESELL. I should like to offer for the record the memorandum of Mr. Little, dated March 6, 1934, from which we have been reading. Acting Chairman REECE. It may be admitted.

Mr. GESELL. Also Mr. Howell's memorandum of June 12, 1934. I have no further questions from Mr. Howell.

(The memoranda referred to were marked "Exhibits Nos. 673 and 674" and are included in the appendix on pp. 4725 and 4727.)

(Mr. Howell was excused from the stand.)

Mr. GESELL. When Mr. Flynn was on the stand last, I neglected to offer for the record his memorandum of March 7, 1934, to Mr. Zacher. I wish to offer it at this time.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 675" and is included in the appendix on p. 4728.)

Mr. GESELL. Mr. Flynn, will you resume the stand, please?

TESTIMONY OF B. D. FLYNN, VICE PRESIDENT AND ACTUARY, TRAVELERS INSURANCE CO., HARTFORD, CONN.—Resumed

Mr. GESELL. So far we have covered two rate agreements among the nonparticipating companies, have we not, the one in '33 and the one in '35?

Mr. FLYNN. Yes.

Mr. GESELL. When was the next one?

Mr. FLYNN. I believe it was effective March 1, 1937.

Mr. GESELL. Prior to the next agreement, is it not a fact that additional agreements were reached with respect to surrender charges and surrender value? May I show you these two memoranda to refresh your recollection?

Mr. FLYNN. These are in regard to the retirement-income contract.

Mr. GESELL. Will you tell us what agreements were reached and what the nature of them was?

Mr. FLYNN. The first agreement was that full-surrender charge of \$25 be continued beyond the twentieth policy year up to within 1 year of maturity, during which year the surrender charge be twelve and one-half dollars per thousand dollars of insurance.

The second one states that at a prior conference of the three local companies it was agreed that the full-surrender charge was to be continued on retirement-income contracts beyond the twentieth year up to 1 year of maturity, during which year the surrender charge be \$12.50 per \$1,000 of insurance.

Mr. GESELL. In effect, those agreements were just a continuation then of your company's policy of reaching uniform agreements with the other two nonparticipating Hartford companies on matters of surrender charges and value?

Mr. FLYNN. On a particular policy; yes.

Mr. GESELL. Now those surrender-charge agreements have a direct bearing upon competition, do they not? If your companies have identical rates, yet a policyholder in one company may be getting back more money than a policyholder in another company, then that company which gives the most liberal benefits has a competitive advantage, has it not?

Mr. FLYNN. There is an element of competition.

Mr. GESELL. So that in reaching an agreement on surrender values and charges, you were in effect standardizing the amount of money which a policyholder could get back if he turned in his policy before maturity.

Mr. FLYNN. Correct.

Mr. GESELL. Having reached the agreements, in other words, to offer a uniform price to the policyholder when you sold him the insurance, you also were reaching agreements that caught the policyholder going out, so to speak, in order that he would only get back the same thing from any of your three companies.

Mr. FLYNN. We also agreed on surrender values, in other words.

Mr. GESELL. That was the net result of it.

Mr. FLYNN. That was the net result.

Mr. GESELL. May I call your attention to a memorandum dated August 1, 1936, contained in the 1936 Life Actuarial Notes of your company, a memorandum written by Mr. Hammond whom, I believe, you stated was a member of your actuarial staff.

Mr. FLYNN. Yes, sir.

Mr. GESELL. Does that memorandum set forth the nature of the rate agreement which was reached and became effective March 1, 1937?

Mr. FLYNN. I can't tell from a cursory glance at this whether this is the final basis agreed upon or one of the tentative statements.

Mr. GESELL. Let me ask you this: Your three companies are still operating under the 1937 agreement?

Mr. FLYNN. Yes.

Mr. GESELL. You know the basis of your company's operation at the present time, do you not, Mr. Flynn, and you can tell us whether this coincides with the present basis or not.

Mr. FLYNN. I can say this, if it would be sufficient: It appears to be generally the basis.

Mr. GESELL. There may have been one or two slight variations, but this is the general program.

Mr. FLYNN. Yes. The effective date I notice is April 1 rather than March 1.

Mr. GESELL. I believe you were originally correct in stating that the agreement went into effect in March.

Mr. FLYNN. Yes.

Mr. GESELL. In substance, the agreement reached in 1937 covered again all forms of ordinary nonparticipating insurance, did it not?

Mr. FLYNN. With the exception of a few special forms.

Mr. GESELL. And it covered the three factors in the rates which we discussed at the first of your testimony this morning, the mortality, loading, and interest.

Mr. FLYNN. Yes, sir.

Mr. GESELL. I wish to offer the memorandum for the record.

Acting Chairman REECE. It may be received.

(The memorandum referred to was marked "Exhibit No. 676" and is included in the appendix on p. 4729.)

Mr. GESELL. I want to ask you one further question, Mr. Flynn. As the three Hartford companies reached their decision to raise rates on a uniform basis, and after that decision was announced and became known in the industry, did you find that by and large other smaller nonparticipating companies followed the lead of your three companies? By that I don't mean they necessarily adopted the same rate, but when a rate increase was announced by the Hartford group that throughout the industry there seemed to be some announcement of a general increase?

Mr. FLYNN. I think that is correct. Perhaps not throughout the industry but certain companies wrote in and certain companies then decided to adopt the same rates, generally as of a later date.

Mr. GESELL. Can you tell us what companies decided to adopt the same rates? Am I perhaps correct in saying Columbian National, Pacific Mutual, the Atlantic Life, and some of those?

Mr. FLYNN. That sounds right.

Mr. GESELL. Can you name any more?

Mr. FLYNN. Is this the recent one?

Mr. GESELL. Yes.

Mr. FLYNN. I think the Missouri State, too.

Mr. GESELL. So the result of the agreement reached by your companies was to bring about a considerable uniformity in rates throughout the nonparticipating field and certainly to bring about a rate increase throughout the nonparticipating field.

Mr. FLYNN. It would have that tendency—I wouldn't say throughout, I wouldn't know just how materially insurance companies were affected, but it did influence a number of companies.

Mr. GESELL. Now, if the committee please, in order that there may be something in the record which will give some indication of the effect of these rate changes as they have taken place, we have prepared a schedule which is offered subject to the provision that it be checked, which will show the premiums required on an ordinary life policy from each of these three companies for age 35, the amount to be required to maintain \$1,000 of that insurance in force from age 35 for a period of 10 years, and we have shown the cash values which each policyholder in the three companies might receive if he cashed in his policy at the end of that 10 years. This schedule, as I said, offered subject to check, does give some indication of the amount involved in the rate increases which we have been discussing. I would like to offer the schedule for the record. It has been prepared from the Little Gem Life Chart, and Best's Illustrations.

Acting Chairman REECE. It may be entered.

(The schedule referred to was marked "Exhibit No. 677" and is included in the appendix on p. 4732.)

Mr. GESELL. I am not clear whether the record contains the exhibit entitled "Exhibit of Changes in Surplus Ordinary Nonparticipating Business."¹ Has that been received?

Miss LEE. Yes.

Mr. GESELL. I have no further questions for this witness.

Acting Chairman REECE. Do the committee members desire to ask any further questions?

Mr. GESELL. That concludes the testimony which we have to date.

Mr. HENDERSON. Mr. Chairman, I think it would be in order to commend Mr. Flynn on the completeness and the frankness with which he has responded to an extraordinary number of questions.

Acting Chairman REECE. The committee appreciates the appearance of the witness and thanks him for his cooperation and the information he has given.

Would you care to state, Mr. Gesell, what your program is to be next week? As I understand, it is the intention of the committee when it recesses today, to recess until Monday.

Mr. GESELL. That is my understanding.

Acting Chairman REECE. And what is to be the procedure at that time?

Mr. GESELL. There has been no final decision as to what will be presented. I want to discuss that with the committee, but the witnesses will be advised amply in advance so their plans may be made accordingly.

Mr. B. M. ANDERSON (counsel, Connecticut General). I would like to ask, on behalf of the Connecticut General——

Acting Chairman REECE (interposing). Have you discussed with any member of the committee or representative of the committee the matter which you wish to take up with the committee?

Mr. ANDERSON. Yes; I have. I have discussed it with Mr. Arnold.

Mr. ARNOLD. I beg to differ with you—a slight conversation. There was no formal taking up.

Acting Chairman REECE. I have no information whatever of what you have in mind to request, but under the procedure of the committee I would suggest that you contact the chairman or the executive secretary and then the matter will be given consideration and if thought advisable it may be entered.

Mr. ANDERSON. Thank you. What I wanted to do was to correct a statement which had been made and which Mr. Gesell said had been set——

Acting Chairman REECE (interposing). If there has been an error made——

Mr. ANDERSON. It is unintentional, I know.

Acting Chairman REECE. The committee and Mr. Gesell also, I am sure, would be very anxious to correct it. Was it a matter that occurred today?

Mr. ANDERSON. It occurred today and it relates to——

Acting Chairman REECE (interposing). Mr. Anderson——

¹ Previously entered as "Exhibit No. 662," see appendix, p. 4717.

Mr. GESELL. I have no objection. It is a question of one of the figures of one of the schedules. This gentleman is attorney for the Connecticut General.

Mr. ANDERSON. You have heard our witness today and it relates to—

Acting Chairman REECE (interposing). This is not the procedure of the committee. I suggest that the informal discussion be off the record.

(Mr. Anderson and Mr. Gesell conferred.)

Mr. GESELL. If it please the committee, we are in distinct disagreement as to whether or not I am right or wrong. We have checked a series of figures which this gentleman challenges. I do not believe that any correction is possible until we have had a chance to confer with his representatives. He has talked simply by telephone to Hartford concerning the figures and I am quite sure it is simply a misunderstanding that has occurred between him and his home office.

Mr. HENDERSON. Then the matter can be submitted formally to the executive secretary or the chairman according to our ordinary procedure, and it can be inserted in the record after it has passed the executive committee.

Acting Chairman REECE. If there is no objection to that procedure, which is in accordance with the policy of the committee, it will be done.

The committee requested information from the Calvert Distillers Corporation when the previous hearing was being held.¹ The information is submitted in response to a question by Commissioner Davis and with the permission of the committee it will be received and will appear properly in the record.

(The schedule referred to was marked "Exhibit No. 678" and appears in the appendix to Hearings, Part VI, p. 2748.)

Acting Chairman REECE. The committee will stand in recess until Monday at 10:30.

(Whereupon, at 3:55 p. m., an adjournment was taken until Monday, June 12, 1939, at 10:30 a. m.)

¹ See Hearings, Part VI, p. 2562.

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

MONDAY, JUNE 12, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,

Washington, D. C.

The committee met at 10:35 a. m., pursuant to adjournment on Wednesday, June 7, 1939, in the caucus room, Senate Office Building, Representative Reece presiding.

Present: Representative Reece, acting chairman; Senator King; Messrs. Henderson, Frank, O'Connell, and Brackett.

Present also: Harry J. Daniels, Department of Commerce; Joseph Borkin, Department of Justice; and Gerhard A. Gesell, special counsel, S. E. C.

Acting Chairman REECE. The committee will please come to order. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. Yes; I am.

Acting Chairman REECE. Call your first witness.

Mr. GESELL. Before calling the first witness I have one exhibit for the record which relates to the testimony last Wednesday. At that time, when Mr. Flynn was on the stand, we had some discussion as to the nonparticipating insurance in force in the three Hartford companies.¹ At that time the figures presented included group insurance. At my suggestion the figures have been prepared excluding group, and I would like to offer this schedule for the record, which has been reviewed by counsel for the Connecticut General and approved by him.

Acting Chairman REECE. It will be admitted.

(The exhibit referred to was marked "Exhibit No. 679" and is included in the appendix on p. 4732.)

TERMINATIONS OF LIFE INSURANCE—ORDINARY AND INDUSTRIAL

Mr. GESELL. Last week the Commission presented to the committee evidence with respect to various intercompany agreements for the establishment of uniform rates and underwriting practices. Further material of a similar nature will be presented during this week of hearings and subsequently. This morning, however, we will shift for a moment to an entirely different topic and will present through charts and statistical summaries on the one hand, and the representatives of the insurance business on the other, information which will demonstrate the character, amount, and relative importance of vari-

¹ See *supra*, p. 4224.

ous modes of terminations for life insurance policies, both ordinary and industrial.

The first witness will be Dr. Davenport, who has already testified before this committee on several occasions.¹ He will present statistical material compiled under his direction from recognized public sources by the staff of the Insurance Section of the Commission. He has already been sworn.

TESTIMONY OF DR. DONALD H. DAVENPORT, SPECIAL ECONOMIC CONSULTANT TO THE INSURANCE STUDY, SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.—Resumed

Dr. DAVENPORT. The importance of life insurance is most generally measured by reference to the total amount of insurance in force. This table, which is entitled "Life Insurance, Total In Force, New Business, and Terminations, United States Legal Reserve Life Insurance Companies, 1928-37," contains the basic data about which we shall talk this morning.

Mr. GESELL. Has this schedule to which you refer been prepared under your direction?

Dr. DAVENPORT. It has.

Mr. GESELL. From Spectator Insurance Year Books. Is that the source?

Dr. DAVENPORT. That is the source.

Mr. GESELL. I wish to offer the schedule for the record.

Acting Chairman REECE. It may be admitted.

(The schedule referred to was marked "Exhibit No. 680" and is included in the appendix on p. 4733.)

Mr. GESELL. Will you tell us, Dr. Davenport, the nature of the information contained on that schedule?

Dr. DAVENPORT. If you will examine the schedule, you will find that in the first column we have listed the total amount of insurance in force at the beginning of the year 1928 and for each year through 1937. The next to the last column lists the total amount of insurance in force reported at the end of each of these respective years. On the first of January 1928, the face amount of all kinds of insurance in force was about \$87,000,000,000. As of the first of January 1938, 10 years later, the face amount of all kinds of insurance in force was almost \$110,000,000,000. That figure appears in the lower right hand corner of the chart. Thus in this 10-year period the amount of insurance in force had increased \$23,000,000,000. To achieve this increase in the insurance in force, the insurance companies had to sell seven times this amount of new insurance. This seven to one relationship between the new business written and the gain in the amount of insurance in force is a reflection of the large proportion of terminations of insurance each year.

The terminations are listed in the third column. For example, in the first year, 1928, \$10,000,000,000 of insurance passed off the books of the companies. The figures that represent the terminations in succeeding years are listed in order, and the total for the 10-year period amounted to \$133,000,000,000.

¹Hearings, Part IV, pp. 1165-1197, 1400-1407; and Hearings, Part IX, pp. 3726-3774.

Acting Chairman REECE. Pardon me. Mr. Gesell, will the witness show the percentage of those terminations which came by reason of death?

Mr. GESELL. That will be the subject considered in subsequent tables and charts.¹

Dr. DAVENPORT. Thus the amount of insurance that terminated in these 10 years was 83 percent as large as the amount of new business written in the same period. In other words, for every thousand dollars of new life insurance written from 1928 to 1937, inclusive, \$830 was merely to replace insurance that had terminated and passed off the books of the companies. Stated another way, in these 10 years \$1,200 of insurance terminated for every thousand dollars of insurance that was in force at the end of the period. These facts serve to focus attention on the termination of life insurance, its importance to the policyholders and its importance to the companies.

Contrary to popular notion, death accounts for a very small proportion of the total amount of terminations. Before we attempt an explanation of the methods by which insurance contracts terminate, there are certain basic conceptions and certain terms that must be explained and defined in order that we may all have a common understanding of the significance of this problem.

THEORY OF LIFE INSURANCE

Dr. DAVENPORT. The basic theory of life insurance in its simplest aspect presupposes the existence of a large group of persons banded together in order to assure each one of the group that he will leave an estate of a certain size whenever he shall die. For illustrative purposes, it is customary to assume a group of 100,000 persons of the same age. Let us suppose that each of a group of 100,000 persons is exactly 35 years old and that each person wishes to be assured that his estate will have \$1,000 if he should die. For this purpose the group may elect a few of their number to manage the enterprise. Let us call these managers the company. The company examines a table of mortality such as the one that is reproduced here.

Mr. GESELL. That is the American Experience Table of Mortality?

Dr. DAVENPORT. It is, Mr. Gesell.

Mr. GESELL. I wish to offer that table for the record.

Acting Chairman REECE. It may be admitted.

(The table referred to was marked "Exhibit No. 681" and is included in the appendix on p. 4733.)

Dr. DAVENPORT. In order to determine the amount each member of the group must pay the company examines this table of mortality to ascertain the number of the group which will probably die before the end of the next year. From the mortality table we learn the number of members of this group who are likely to die. According to this table, this number is found to be 8.95 persons per thousand, at age 35. If you will pass your finger down in the left hand column under the caption "age" to 35, opposite that in the third column, you will find under the caption "death rate per 1,000" 8.95. Therefore the company will expect 895 of their 1,000 members—

Mr. GESELL (interposing). Their 100,000 members.

¹ See "Exhibits Nos. 683-685," pp. 4293-a, 4300, 4738.

Dr. DAVENPORT. Thank you; their 100,000 members to die by the end of their thirty-fifth year. In order to pay a thousand dollars to the estate of each of these, the company must collect a total of \$895,000 from the group of 100,000. This means a payment or premium of \$8.95 from each member of the group. This amount is called the annual cost of insurance for 1-year term.

At the beginning of the second year there will remain 99,105 persons of the original group who were 35 years old when the company began doing business. If these 99,105 wish to continue their insurance for the second year, each one must pay another premium to the company. An examination of the mortality table shows that the mortality rate is slightly higher between the ages of 36 and 37 than between the ages of 35 and 36. The mortality table indicates that out of the 99,105 there are 901 who will probably die before the end of the second year. \$901,000 is then the amount needed this year in order to pay \$1,000 to the estate of each of the 901 persons expected to die. A contribution of \$8.97 from each will be required.

We note that this represents an increase of 2 cents per person in the premium of the second year over that of the premium of the first year. This same process can be continued during each succeeding year until all the members of the group have died. However, it can readily be seen that the premiums would have to increase every year because of the rising rate of mortality as the group gets older. By the time the individuals have reached the age of 69, for instance, when approximately half of the group that started would be dead, the net annual premium on \$1,000 insurance would have to be about \$57. From this age on the premiums increase so rapidly as to become almost prohibitive. In order to obviate the difficulty presented by this continually increasing cost of annual 1-year term insurance, there was devised what is known as the level premium life insurance. This calls for an annual premium which remains the same throughout the lifetime of the insured.

Mr. GESELL. Have you charted on a chart entitled "Whole Life Policy, \$1,000 at age 35"¹ the annual cost of insurance on that risk and the net level premium charged each year?

Mr. DAVENPORT. That is charted on the chart that is before you.

Mr. GESELL. Will you explain that chart, please?

Mr. DAVENPORT. Reference to this chart and the table upon which it is based will assist in understanding the significance of the level premium plan. The illustration is worked out for a whole life policy for \$1,000 taken out at age 35. At this age the net level premium each year is \$21.08. This net level premium is based on the American Experience Table of Mortality and assumes that the company will be able to earn from its investment of reserves interest at the rate of 3 percent.

The level premium is computed in such a way that the earnings on the reserves augmented by the annual premiums will provide the company with sufficient funds to meet all claims. To maintain a thousand dollars of life insurance in force throughout his lifetime, a person who takes out this insurance at age 35 must pay a net level premium of \$21.08 each year. In the early years of his life, this net

¹ Subsequently entered as "Exhibit No. 682," see *infra*, p. 4286-8.

level premium is in excess of what it would cost to buy 1-year term insurance. This excess charge constitutes the policyholder's savings and is accumulated for him at compound interest by the company in the reserves. When the insured has attained an age where the mortality rates are so high that the annual cost of insurance is greater than this level premium, the company begins to draw on the interest earned on these reserve funds. As a net 1-year term premium of about \$8.84 would be enough to pay all claims in the first year, using the same table and the same interest assumption, the balance would go into the reserve. The interest earned would bring the reserve to \$12.88 by the end of the first year.

The American Experience Table of Mortality assumes that no life extends beyond age 96 and that all claims will have been incurred by that time. At age 96 the reserve on each policy will equal the face of the policy. A whole life policy may be considered as an endowment payable at age 96.

Reference to the table upon which this chart is based¹ will indicate how the savings element in the net level premium accumulates in the reserves against the individual policy. Ten years after the policy is taken out, the reserve will amount to \$146.01.

When the policy has been in force 20 years the reserve will amount to \$327.58. By the time the policyholder is 96 years old the reserve will have reached the face value of the policy, \$1,000. The company holds the reserve for the benefit of the policyholder, subject to certain restrictions; the policyholder may obtain the reserve in cash by surrendering his policy. On the other hand, he may borrow almost all of his reserve from the company, at interest. There are two elements, therefore, insurance and savings, that make up the amount that is paid upon the death of the insured. These parts vary in importance depending upon the number of years that elapse before death occurs. In the early years the insurance element, the amount of risk, is predominant. In the later years the reserve, or the policyholder's accumulations of savings, overshadow the insurance.

To illustrate how these two elements vary over the life of an insured is the purpose of the second diagram on the chart, that portion of the chart appearing in the right-hand segment. It will be seen that in any year the two elements add up to \$1,000, the face of the policy.

The reserve, which has been described, is really an accumulation of savings by the policyholder. Any member of the insured persons could, of course, accomplish the same result by buying 1-year term insurance for the amount at risk each year and placing the difference between that amount and the net level premium in a savings bank. It would have to be assumed, of course, that the savings bank would pay the same interest rate, 3 percent, that the company employs in accumulating reserve. At about age 67, when the rising mortality rate makes the tabular cost of insurance at risk exceed the net level premium, he could then draw upon the interest earned on his savings in the savings bank to make up the difference.

It is, of course, more convenient for the policyholder to be able to pay his premium and his savings to the same company, and he is also more likely to carry out the plan if he does so.

¹ See "Exhibit No. 852," *infra*, p. 4286-a.

Mr. GESELL. Now, may I offer for the record at this time the chart which Dr. Davenport has just discussed, entitled "Whole Life Policy, \$1,000, age 35," and the schedule supporting the chart?

Acting Chairman REECE. The document may be admitted.

(The chart referred to was marked "Exhibit No. 682" and appears on p. 4286-a. The statistical data on which this chart is based are included in the appendix on p. 4734.)

Mr. GESELL. Before going on, Dr. Davenport, I want to be sure that I understood what you were saying. In the left-hand portion of the chart entitled "Charges" the portion marked "Excess of premiums paid by policyholders over cost of insurance at risk," directing your attention to that portion of the chart, am I correct in saying that at age 35, during the first years of the policy, a person purchasing it on a net level-premium plan pays into the company more money than is required to meet the amount which he would contribute simply for the purpose of insuring himself, in other words, covering the risk involved.

Dr. DAVENPORT. That is essentially correct. Throughout the life-time of the policyholder he pays \$21.08. The annual cost of the amount of insurance at risk varies as is shown by this line that goes up from the lower left to the upper right.

Mr. GESELL. For how long is it that he pays in more than is necessary to meet the annual cost of insurance for the amount of risk?

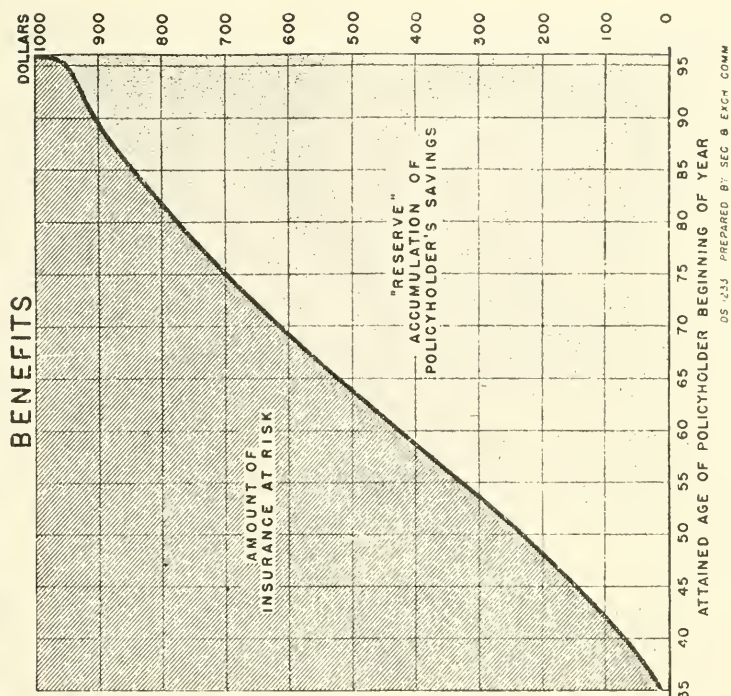
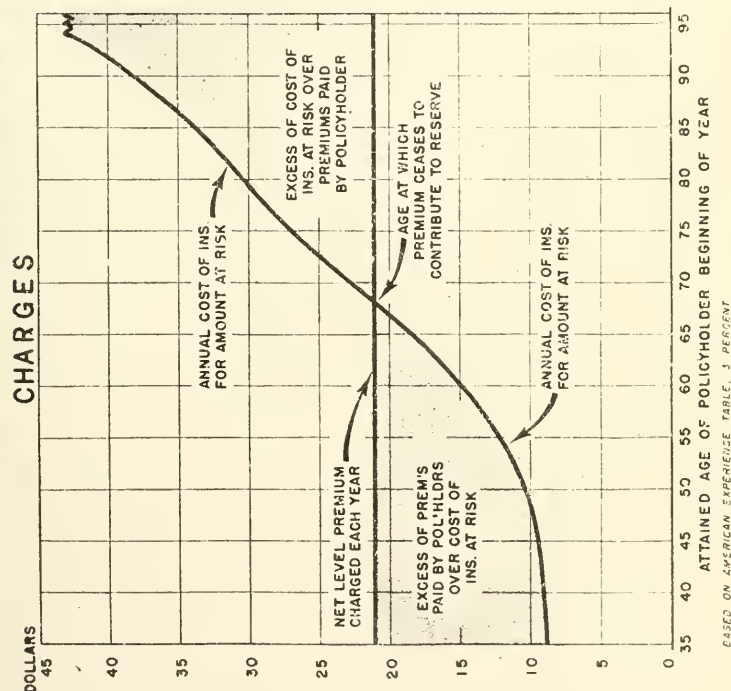
Dr. DAVENPORT. The line crosses at about age 68, I should say; up until he is 68 years old the net level premium exceeds the annual cost of insurance for the amount for which the insurance company is insuring him.

Mr. GESELL. Do I understand that that reserve which is built up by these excess payments earns interest which in later years is used to reduce the amount of the premium which he would have had to pay had he been paying it on the pure basis of the cost of insurance at risk each time?

Dr. DAVENPORT. From age 35 the excess premium charges that are made to the policyholder until he reaches the age of about 68 is accumulated by the company at compound interest, as is indicated by the blue section (the lower section) of the second part of this chart. At the end of the first year the reserve against this policy amounts to \$12.88 and each year until 69 additional amounts are added to that reserve and they continue to earn interest at 3 percent, so that by the time the policyholder has theoretically reached the age of 96 the accumulation of those amounts in the reserve will total \$1,000. There comes a time when the cost of the insurance at risk exceeds \$21.08, the net level premium charged each year. That is at age 68. After age 69 the company in effect takes some of the interest earnings on the reserve to add to the \$21.08 a year which the policyholder continues to pay as his net level premium, to make up what it would actually cost to insure the policyholder for the amount at risk in each one of those years.

Mr. FRANK. Is the portion on the right of that chart equal to the portion on the left?

EXHIBIT No. 682

WHOLE LIFE POLICY (\$1,000) AGE 35

BASED ON AMERICAN EXPERIENCE TABLE, 3 PERCENT

QS 123J PREPARED BY SEC 8 EXCH COMM

Dr. DAVENPORT. No; there is no reason why it should be. We have assumed that it starts at age 35 and it does in this case. We might have taken an example at age 25 in which case the segment of blue would be much larger, you see.

Mr. GESELL. You mean the segment entitled "Excess of Premiums Paid by Policyholders Over Cost of Insurance at Risk"?

Dr. DAVENPORT. Yes; that is right. There is no necessary equality between those two segments.

Mr. GESELL. Now, what is your next chart, Dr. Davenport?

Dr. DAVENPORT. I should now like to turn to the consideration of terminations.

Mr. GESELL. You are referring now, are you not, to the chart entitled "Terminations of Life Insurance, 1922-37, Amounts."¹

Dr. DAVENPORT. "Terminations of Life Insurance, 1922-37, amounts. Ordinary. Industrial."

It is important to understand the various ways in which life-insurance policies are terminated. The most important contingency against which life insurance is written is, of course, that of the death of the policyholder. When the insured dies, the policy terminates by *death*, and is so designated. The company is obliged to pay the face of the policy to the beneficiary. Some few policies carry what is known as an installment disability benefit. Under this, if the insured suffers total and permanent disability, the policy terminates by what is known as *disability*. The premium payments by the policyholder then cease, and benefits are paid to the insured by the company. In addition to the above modes of termination, there are two other ways which also represent the successful termination of insurance contracts; for example, endowment contracts written to mature in a stated period of years terminate by what is known as *maturity* when that period expires. Also, term insurance, which has no savings elements, is written for stipulated periods; upon the completion of the period specified term insurance terminates by what is known as *expiry*. From the policyholder's point of view, terminations by death, by disability, by maturity, represent satisfactory completions of the insurance contract, and it may be said that to the extent that expiry represents the terminations of policies originally written for a term of years, expiry also represents a satisfactory mode of termination.

It is a generally recognized fact that the great bulk of life insurance terminates in a manner that cannot be regarded either by the companies or by the policyholders as entirely satisfactory. A great deal of insurance terminates within a short time after it is sold, by reason of the failure of the insured to keep up the payments of his premiums. When such failure to maintain premium payments occurs before the policyholder is entitled to a refund of any portion of the reserve against his policy, the insurance is said to have terminated by *lapse*. Let me repeat that because it is very important: When such failure to maintain premium payments occurs before the policyholder is entitled to a refund of any portion of the reserve against his policy, the insurance is said to have terminated by *lapse*.

Mr. GESELL. Referring a moment, Dr. Davenport, to the chart entitled "Whole Life Policy,"² which you discussed a moment ago,

¹ Subsequently introduced as "Exhibit No. 683," see *infra*, p. 4293-a.

² "Exhibit No. 682," *supra*, p. 4286-a.

the reserve to which you refer is the portion marked "Excess of premiums paid by policyholders over cost of insurance at risk," is it not?

Dr. DAVENPORT. No, Mr. Gesell; it is the blue portion of this diagram. It is the lower right-hand portion of the second part, which represents the accumulation of the reserve at age 35; at the end of the first year the reserve amounts to \$12.88, and each successive year that reserve accumulates by reason of additions that are represented here by the blue, and by the accumulation of interest at 3 percent on what has previously been put in that reserve.

Mr. GESELL. The reserve results from the excess payments which are referred to in the part of the chart I mentioned, and the actual reserve itself is represented by the lower portion of the right-hand section of the chart?

Dr. DAVENPORT. That is correct, Mr. Gesell.

Mr. GESELL. And you say that when a policy terminates under such conditions that the policyholder receives no portion of that reserve back at the time of termination, that policy is said to have lapsed.

Dr. DAVENPORT. It is called a lapse under those circumstances.

Mr. FRANK. Does that mean that he has made contributions which are in effect savings by him, together with interest accumulations thereon, and that in the circumstances you describe he receives back no portion of those savings?

Dr. DAVENPORT. When a policy is said to terminate by lapse he gets no portion of that reserve back. That is correct.

Mr. FRANK. In effect that is the savings portion of his insurance?

Dr. DAVENPORT. Yes, sir.

Mr. FRANK. And under the circumstances you have described, he has made what were assumed to be savings, but which he does not receive?

Dr. DAVENPORT. That is right.

Senator KING. It is part of the contract that if he shall not continue his payments he will lose the benefits of that.

Dr. DAVENPORT. It lapses. It is stipulated very definitely in the contract he takes that if he continues until he dies, or until the policy terminates at age 96, he gets all of it back.

Mr. FRANK. You are describing at this time the consequences of contractual provisions in the insurance policy?

Dr. DAVENPORT. That is right.

Senator KING. Those policies have been the subject of scrutiny; have they not, by the various States in their formulation of legislation?

Dr. DAVENPORT. It is my understanding that every new policy that is issued must first receive the approval of the State insurance commission.

Senator KING. And the States in which policies are written have insurance laws, I presume, and an insurance commission?

Dr. DAVENPORT. They have, Senator King.

Senator KING. To supervise the law and protect the policyholder as well as the companies?

Mr. FRANK. As I understand it, you are not now in this testimony in any way indicating that these consequences to which you refer are the result of any violation of contract or of a State law.

Dr. DAVENPORT. None whatever. It is clearly specified in the terms of the contract and the laws of the State. This is in essence what

happens. The justification for it will require considerable explanation. We are stating the facts as reported.

Senator KING. You are not contending that the rates are too high or too low?

Dr. DAVENPORT. We are discussing merely this morning the modes of termination of policies.

Senator KING. Yes.

Dr. DAVENPORT. I had just finished describing what we call lapse. In further explanation of that, in this case the policyholder has paid the full net level premium for the insurance protection afforded him over the period that he was covered. Reference to the table and chart describing this whole life policy, \$1,000, age 35, indicates that under such conditions the cost of protection the insured actually enjoyed was at least twice as great as it would have been if he had taken out term insurance for the same period.

After the policy has been in force for a period specified in the policy, usually from 3 to 5 years, the policy holder is entitled, under the terms of the policy, to receive a cash value if he discontinues payment of premiums. This cash value is known as the cash-surrender value, and policies that terminate in this manner are said to terminate by *surrender*.

Mr. GESELL. Where policies terminate by surrender, the policyholder gets back a portion of his reserve but not the entire reserve, in some cases, and in some cases he gets back the entire reserve, does he not?

Dr. DAVENPORT. Practice differs in different companies. There is usually imposed what is known as a cash-surrender penalty or charge, presumably to compensate the company for the bookkeeping expense involved and also probably to act as a stimulus to keep the policyholder from withdrawing his cash-surrender value.

Life-insurance policies carry what are known as nonforfeiture options, which become available after the policy has been in force for a specified period. One of these options is known as extended term insurance. Under this option, the company will apply the reserve in the policy to the purchase of insurance equal to the face amount of the policy, which will continue for a term, the duration of which depends upon the size of the reserve. After having paid premiums for 5 years, for instance, the policyholder may be entitled to insurance for the face amount of the policy for an additional 5 years without the payment of any more premiums. At the expiration of this extended term the insurance is said to terminate by *expiry*.

Another option, a nonforfeiture option, is called paid-up insurance for a decreased amount. Under this option, if the policyholder can no longer continue to make his premium payments, the reserve in the policy is used to buy for the policyholder insurance for the rest of his life for a smaller amount than the face of the old policy, but without obliging him to pay any additional premiums. The amount of this paid-up insurance is calculated by a formula that depends on the size of the reserve when the premium payments stopped. From the companies' point of view, this represents a decreased amount of insurance in force, and consequently we have insurance that terminates by decrease. When policyholders can no longer continue to pay their premiums but they have paid those premiums long enough to become eligible enough for one of these nonforfeiture options, this type of

paid-up insurance for a decreased amount may be put in force. The difference between that amount and the amount of the face value of the original policy means a writing off the books of a certain amount of insurance of the company, and that kind of a decrease is a termination, and it is described as *decreased*.

Senator KING. However, there is a liability there to make certain payments from time to time, annual or otherwise.

Dr. DAVENPORT. Not on the part of the policyholder. On the part of the company there is a liability to pay that face amount of the decreased policy whenever the policyholder dies.

Mr. GESELL. In fact, what happens is that the company takes the cash value on the policy and uses that to purchase paid-up insurance which the policyholder then has entirely paid up, and upon which he has no requirement to make any further payments?

Dr. DAVENPORT. That is correct.

In addition, it should be pointed out that insurance may be taken off the books of the company by reason of the direct request of the insured to reduce the amount of his insurance. Such reduction in the coverage of insurance is also reported as a termination by *decrease*, so the total amount reported as a decrease arises from these two sources.

Thus it appears that when insurance terminates by lapse, surrender, decrease, and, in certain cases, expiry, it terminates in a manner not representing the purpose for which the insurance was sold. Such modes of termination are called by the insurance industry *voluntary terminations*. They represent the extent of the frustration of the original purposes for which the insurance was taken out.

Mr. GESELL. Now, Dr. Davenport, if you will refer to the chart entitled "Terminations of Life Insurance, 1922-37, Amounts,"¹ and explain to the committee the basis upon which that chart has been prepared and the relative ratios and percentages illustrated both for ordinary and industrial insurance—

Dr. DAVENPORT (interposing). In the chart that is on the easel to the left—

Mr. FRANK (interposing). That is the chart entitled "Terminations of Life Insurance, 1922-37"?

Dr. DAVENPORT. The chart entitled "Terminations of Life Insurance, 1922-37," we have a picture of the amounts and modes of terminations of ordinary insurance and industrial insurance for the period from 1922 through 1937. The schedules upon which this chart is based² give the figures for each year separately. In presenting the material graphically, we have summarized the period in four periods of 4 years each. The first bar that you see represents the 4-year period from 1922 through 1925, inclusive. In that period the total amount of ordinary insurance that terminated was \$17,127,000,000. The height of that bar is proportional to the amount just stated.

In the next 4-year period the total amount of ordinary insurance that terminated was a little in excess of \$25,000,000,000, and in the third period the amount reached over \$42,000,000,000. In the fourth period, from 1934 through 1937, the total terminations amounted to \$28,000,000,000.

¹ "Exhibit No. 683," *infra*, p. 4293-a.

² *Ibid.*, appendix, p. 4735.

Bear in mind that this refers only to ordinary insurance.

Mr. GESELL. Now, am I correct in saying, Dr. Davenport, that for all four of those periods, generally speaking, the percentage of terminations which are accountable to death, maturity, and expiry, are relatively the same?

Dr. DAVENPORT. Practically the same.

Mr. GESELL. Taking the period 1934 to 1937 for purposes of illustration, what percentage of the terminations of ordinary insurance in that period terminated by death?

Dr. DAVENPORT. At the bottom of the table supporting that portion of the chart appears the percentages that you have just requested. Under the caption "Death," which appears in the next to the last column on that table, we have the following figures that represent the percentages of the total terminations of ordinary insurance by reason of the death of the insured. In the first 4-year period they amounted to 7.94 percent. On the chart that is represented by the black segment of the bar; 7.94 percent by death.

In the next 4-year period it amounted to 8.29 percent; in the third period, from 1930 through 1933, death accounted for 6.66 percent; and in the last period death was responsible for the termination of 9.88 percent of the ordinary insurance that terminated.

Mr. GESELL. Now, will you give us the figures on a similar basis for the amount of insurance which terminated in each period by lapse?

Dr. DAVENPORT. On the table, the second column gives the percentages of terminations that occurred by reason of lapse. On the chart lapse is represented by the segment of the bar that is at the bottom, the very bottom, the dark red portion of each of these bars.

In the first period, lapse accounted for 52.59 percent; in the second period, 53.16 percent; in the third period, 42.19 percent; and in the fourth period, 36.47 percent.

Mr. GESELL. Well, now, so far we have been discussing the ordinary section—the ordinary insurance section of the chart. Now, on the right-hand portion of the chart you have a section marked "Industrial insurance," and I believe, as we have already defined industrial insurance in these hearings, it is a form of insurance which is sold usually in small amounts, collections being made by the agents through door-to-door canvassing, and it is familiarly known, sometimes, as "burial insurance," is it not?

Dr. DAVENPORT. That is correct.

Mr. GESELL. Now, will you tell us for industrial insurance terminations the amount of insurance that actually terminated by death during the four periods covered on the chart?

Dr. DAVENPORT. These amounts are given on the second schedule that supports this chart, the schedule entitled "Terminations, Industrial Life Insurance, Amounts, All Companies, in Thousands of Dollars, 1922-37."

In the period from 1922 to 1925, death accounted for the termination of \$348,000,000 of industrial insurance, an amount that represented 5.14 percent of all industrial insurance that terminated in that period. You will note that the percentages that represent terminations by death are considerably smaller in the case of industrial insurance than they were in the case of ordinary insurance.

In the second period, from 1926 through 1929, death accounted for only 4.7 percent of total terminations of industrial insurance; in

the third period, 3.11 percent; and in the fourth period, 4.01 percent.

Mr. GESELL. Now, as you did in the case of ordinary, will you give us the lapse percentages for industrial insurance for these periods?

Dr. DAVENPORT. Lapses, represented on the chart by the segment of the bar that is colored in deep red, are the segment that appears at the bottom of the bar. In the first period, lapse accounted for 83.75 percent of all terminations of industrial insurance. In the second period the percentage was 81.66 percent; in the third period, 73.67 percent; and in the fourth period, 63.32 percent.

Mr. FRANK. Does that mean that in the period 1926-29, and again in the period '34-'37, \$10,000,000,000 of policies lapsed and that the purchasers received nothing back of what they had paid in?

Dr. DAVENPORT. They received no cash value for what they paid in. There was no cash return to those purchasers. They had protection during the period that their insurance was in force. That is all they had.

Mr. FRANK. And for those respective periods, approximately 83 percent for the earlier period and 63 percent for the second period I mentioned?

Dr. DAVENPORT. That's right.

Dr. LUBIN. Dr. Davenport, I note that in more recent years, particularly since 1930, the percentage that went to these policyholders in surrender values increased. Can you explain why that happened? Was it due to the fact that some of them for the first time learned that there was a surrender value, or were there other factors involved, such as a change in type of policy?

Dr. DAVENPORT. There were two factors that I think probably explain the increase in the percentage by surrender under which the policyholder got back a portion of his reserve. One of them was a liberalization of industrial policies taking place over this period which made available to those people who had to lapse their policies previously a cash surrender value. I think, too, the fact that during the twenties there was this great surge of interest in insurance, and tremendous volumes of insurance were written, meant that we gradually accumulated on the books of the companies policies that continued long enough so that they had cash surrender values and, consequently, when they did go off the books, could go off the books by surrender rather than lapse.

Dr. LUBIN. Is there a difference in the surrender clauses of the industrial policies as compared, let's say, to the ordinary?

Dr. DAVENPORT. It varies from company to company.

Dr. LUBIN. Is the industrial more or less liberal than the ordinary?

Dr. DAVENPORT. It is much less liberal than the ordinary.

Dr. LUBIN. I notice that you have got here, under "Maturity," certain figures, both for industrial and for ordinary. I take it that some of the industrial insurance is endowment, is it not?

Dr. DAVENPORT. That is right—a small proportion.

Dr. LUBIN. Can you read into the record the actual percentage of industrial policies that actually matured as shown by your table?

Dr. DAVENPORT. The figures that appear in the third from the last column, Dr. Lubin, show the amounts in thousands of dollars of industrial policies that terminated by maturity during this period.

In the first period, 1922 through 1925, \$61,079,000 of industrial insurance terminated by maturity. In the last period, 1934 through 1937, the total amount of industrial insurance that terminated by maturity was \$107,879,000.

Mr. GESELL. I believe Dr. Lubin asked for the percentage that those maturity terminations represented to total terminations for all kinds of industrial insurance.

Dr. DAVENPORT. Those percentages appear just below the figures I have just read, and they constitute 0.90 percent for the first period, 0.36 percent for the second, 0.26 percent for the third, and 0.68 percent for the fourth.

Mr. GESELL. Just before passing to the next chart, to clarify one phase of this matter, where your figures and your chart show a percentage and amount of insurance terminated by surrender, that means the amount of insurance that terminated by surrender and not the amount which was paid in surrender values, does it not?

Dr. DAVENPORT. Quite right. It is all based on the face amount of insurance terminating.

Mr. FRANK. Do I understand correctly that industrial insurance is largely purchased by people in the lower-income brackets?

Dr. DAVENPORT. Yes, sir.

Mr. FRANK. That means poor man's insurance?

Dr. DAVENPORT. It is poor man's insurance. It is called burial insurance—weekly payment premium insurance. Usually the premiums are collected by the agents that call upon the policyholders at their homes weekly, and in some cases monthly. In some cases the companies give an inducement to the policyholder if he will pay his premium on industrial insurance directly to the office, but that does not account for a very large percentage of the total amount of industrial insurance. It is poor man's insurance.

Mr. FRANK. Perhaps I am anticipating, but do I understand the surrender rights in poor man's insurance are generally less favorable to the insured than other types of insurance?

Dr. DAVENPORT. I think there is no question about that.

Mr. GESELL. We will come in a moment to a more detailed consideration of the termination experience in industrial insurance.

I would like to offer for the record at this time the chart entitled "Terminations of Life Insurance, 1922-37, Amounts," which Dr. Davenport has just been discussing, together with the two supporting tables, one labeled "Terminations, Ordinary Life Insurance, Amounts," and the other labeled "Terminations, Industrial Life Insurance, Amounts."

Acting Chairman REECE. They may be admitted.

(The chart referred to was marked "Exhibit No. 683" and appears on p. 4293-a. The statistical data on which this chart is based are included in the appendix on p. 4737.)

Mr. GESELL. Now, Dr. Davenport, you have before you, have you not, a chart entitled "Life Insurance in Force, Newly Issued, and Terminated, Amounts, 1918-37, 1928-37"?

Dr. DAVENPORT. That is right.

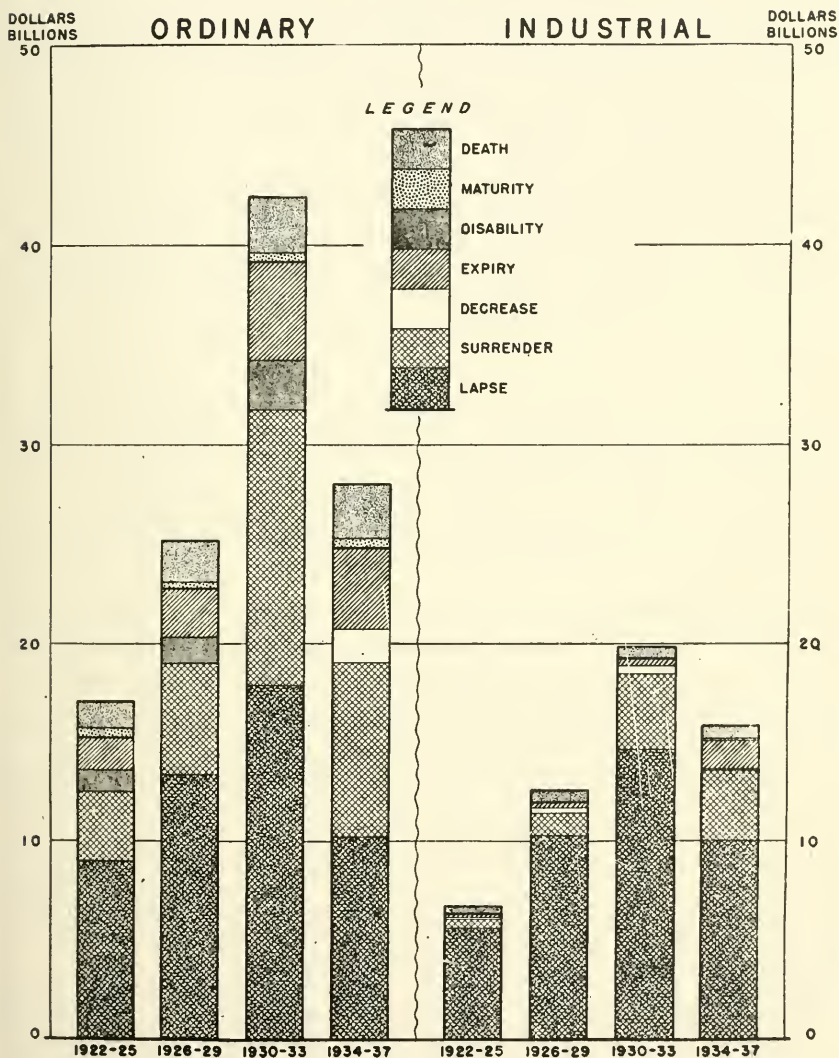
Mr. GESELL. Will you explain that chart to the committee, please?

¹ Subsequently introduced as "Exhibit No. 684," infra, p. 4300.

EXHIBIT No. 683

TERMINATIONS OF LIFE INSURANCE, 1922-1937

AMOUNTS



Dr. DAVENPORT. In order to study the significance of terminations of life insurance, we have devised this chart exhibited before you. This shows the total of industrial and ordinary insurance combined. The data upon which this chart is based appear on the accompanying table entitled "Terminations, Ordinary and Industrial Life Insurance, Amounts, Compared with Total New Business and Insurance in Force."¹

Mr. GESELL. I notice that the chart is divided into two intervals of 10 years each, for which separate totals and separate percentages have been computed. Will you kindly step to the chart and explain for the committee what each of the several bars on the chart represents?

Dr. DAVENPORT. You will note that the chart is divided into two parts. The first part represents the history of this insurance business as reflected by the total of ordinary and industrial insurance in the decade of 1918-27. The scale of the chart runs from zero at the base to \$150,000,000 at the top. The first bar, that colored in yellow on the chart—

Mr. GESELL. That is the one entitled "Old Business," is it not?

Dr. DAVENPORT. Entitled "Old Business," represents the amount of business on the books of the companies, the amount of life insurance in force, as of January 1, 1918, the beginning of this 10-year period.

Mr. GESELL. That is ordinary insurance and industrial insurance.

Dr. DAVENPORT. A combination of all ordinary and industrial insurance.

Mr. GESELL. Group insurance has been excluded from this chart.

Dr. DAVENPORT. Group insurance is subject to peculiar conditions which necessitate a separate treatment of group insurance. At the present time group insurance accounts for approximately 12 percent of the total amount of insurance in force. It is wholesale insurance purchased by employers for the benefit of their employees.

Mr. GESELL. The second bar is entitled "New Business" and represents business written during this period from 1918 to 1927. Is that correct?

Dr. DAVENPORT. That is correct. We started this period with \$27,000,000,000 of life insurance on the books of the companies. During the 10-year period a total of \$109,800,000,000 of new business was put on the books of the companies.

Mr. GESELL. At the top of that bar there is a segment entitled "Revivals." Will you tell us what "revivals" are.

Dr. DAVENPORT. Revivals represent the reinstatement of policies that had previously lapsed, which are reinstated by the policyholder and put again on the books of the company.

Mr. GESELL. It might also represent the revival of an extended term policy, might it not?

Dr. DAVENPORT. Yes. The third bar is entitled "Total Terminations." In this 10-year period there was a total of \$54,400,000,000 of insurance that passed off the books of the companies.

Mr. GESELL. May I ask here, to make the record clear, whether that termination bar, the third bar, represents only the termination of business covered by the bar entitled "New Business," or whether it represents terminations of all business, that is of the old business plus terminations of some portion of the new business.

¹ "Exhibit No. 684," appendix, p. 4737.

Dr. DAVENPORT. In all probability many of the insurance policies that terminated during this period had been in force at the beginning of the 10-year period. It is quite likely that some of the 7.9 percent of the terminations that terminated by death were on the lives of individuals that had been insured even before this period started.

Mr. GESELL. So it includes termination of both new business written during the period and terminations of some portion of the old business which was on the books at the beginning of the period.

Dr. DAVENPORT. That is correct.

Mr. GESELL. Now I notice there that the terminations were some 62.32 percent accountable to lapse, and only some 7.97 percent accountable to death. Is that correct?

Dr. DAVENPORT. These are the figures on the chart and they are correct.

Mr. GESELL. The fourth bar entitled "Ten-Year Gain" represents, does it not, the amount of increase in insurance in force which resulted in the writing of the new business shown on the second bar?

Dr. DAVENPORT. The fourth bar represents insurance in force at the end of the 10-year period. This bar is broken into two segments, the first segment of which is exactly the size of the old business. The difference between the height of the bar that represents new business issued and the height of the bar that represents total terminations in the 10-year period is exactly the height of this segment of the fourth bar that represents insurance in force.

Mr. FRANK. The upper portion.

Dr. DAVENPORT. That is right; the upper portion is exactly the difference between the height of that bar of new business and the height that represents total terminations.

Mr. GESELL. Will you tell us how much of the gain was made during this 10-year period in insurance in force?

Dr. DAVENPORT. The total gain for the 10-year period is \$53,000,000,000.

Mr. GESELL. And to accomplish that gain how much insurance was written?

Dr. DAVENPORT. The figure is \$109,800,000,000.

Mr. GESELL. Am I correct in saying that the second portion of your chart, that marked "1928-1937," is prepared on a comparable basis showing the experience during the period from January 1, 1928, to December 31, 1937?

Dr. DAVENPORT. Yes, sir.

Mr. GESELL. Now will you tell us, Mr. Davenport, how much business was written during that period and what the resulting gain was for that period?

Dr. DAVENPORT. We started the second period of 1928-37 with \$80,600,000,000 of business on the books of the companies—that is the same figure that we had to end with the previous period. During this 10-year period the new business issued amounted to a total of \$146,700,000,000.

Mr. GESELL. I didn't hear that figure.

Dr. DAVENPORT. \$146,700,000,000 of new insurance put on the books of the company in the 10-year period from 1928 to 1937. In that same 10-year period the total of the insurance that terminated was

\$126,700,000,000, and the difference between the new business and the business that terminated is represented by this small segment here. \$16,000,000,000. In other words, as of December 31, 1937, we ended with \$16,000,000,000 more life insurance on the books of the companies in their ordinary and industrial departments than we had 10 years before.

Mr. GESELL. Then, as compared with the previous period, a great deal more insurance was written and a much smaller net gain in insurance in force was accomplished.

Dr. DAVENPORT. Yes. In the first period we wrote \$109,800,000,000; in the second period we wrote \$146,700,000,000. In the first period \$54,400,000,000 terminated; in the second period \$126,700,000,000 terminated. The gain in the first period was \$53,000,000,000; the gain in the second period was \$16,000,000,000.

Mr. FRANK. Are those figures right? He said 146 for the second and 126 terminated. According to the table, the difference between the two would be 20.

Dr. DAVENPORT. The difference arises, Commissioner, by reason of the manner in which the figures are compiled. We do not have a complete census of the insurance business. We are forced to depend on the figures that are reported to the Spectator and published in the Spectator Yearbook every year. The number of companies included is never the same, and consequently there is a slight discrepancy which arises when a company fails or is reinsured or merged with another company, or when a company doesn't report in time to get into the Spectator Insurance Yearbook.

Mr. GESELL. That is explained in a footnote to the table which accompanies the chart.¹

Mr. FRANK. What you have just said, to recapitulate, means that during the period 1928 to 1937 there was approximately \$146,000,000,000 of new business, and the net result was only \$16,000,000,000 of gain.

Dr. DAVENPORT. That is right.

Mr. FRANK. So you wrote 146 billion to add 16 billion?

Dr. DAVENPORT. That is right.

Mr. GESELL. Once again your terminations by death represented considerably less than 10 percent of the terminations. How much did they represent?

Dr. DAVENPORT. The terminations by death in the first period represented 7.9 percent of the total terminations; in the second period they dropped to 6.59 percent of total terminations.

Mr. GESELL. Using the terms which you used in discussing terminations on the previous chart, is it fair to say that in both periods the terminations representing the successful accomplishment of the plan contemplated by the policyholder at the time his insurance was taken out are a relatively small percentage in either of the 10-year periods?

Dr. DAVENPORT. A very small percentage. I have summarized the significant relations that are revealed in this chart, as follows: The largest single mode of termination was by lapse. Lapse accounted for 62 percent of all terminations. Surrender accounted for almost 16 percent, and decrease for 4.4 percent.

¹ See "Exhibit No. 684," appendix, p. 4737.

Mr. GESELL. That is in the first period?

Dr. DAVENPORT. That is in the first period. These three modes constituted terminations that represented the frustrations of the intentions of the policyholders when they took out their insurance. Together these modes of terminations that represent frustration of purposes account for over \$82 of every \$100 that terminated in the period.

Senator KING. Did you use the word "frustration" accurately? A person might take out insurance for a few months or a few years.

Dr. DAVENPORT. If he did he would take out term insurance, in which it would terminate at maturity.

Mr. GESELL. You mean terminate by expiry.

Dr. DAVENPORT. Yes. If he took out an endowment policy, say, a 10-year-endowment policy, at the end of 10 years it would mature; it would terminate in a manner that would be successful so far as he was concerned.

Senator KING. Are not some of the industrial policies taken out with the expectation that they will not be continued more than a short time, perhaps in the employment of A or B or C, or for some other reason?

Dr. DAVENPORT. It would be hard to look into the mind of the industrial policyholder to determine the real reason why he bought that insurance.

Mr. FRANK. When——

Senator KING. Let him complete the answer.

Mr. FRANK. I didn't mean to interrupt.

Dr. DAVENPORT. When we find such a large percentage of industrial policies that lapse by the end of the first, second, or third week, it doesn't seem that the policyholder took it out with the intention that he would allow that policy to lapse so soon.

Mr. GESELL. By and large, industrial insurance is known as burial insurance, is it not, and is taken out primarily for the purpose of burying the worker when he dies, so the family will have some way of taking care of him?

Dr. DAVENPORT. Again I say it would be hard to understand the motives that activate the policyholder in taking out that insurance, but certainly the necessity of having burial expenses to prevent being buried in poverty is a very potent motive.

Mr. FRANK. Dr. Davenport, may I ask, where an industrial policy terminates by lapse, is the cost to the insured greater than if he took a policy for that same period in the form of term insurance?

Dr. DAVENPORT. Oh, much greater.

Mr. FRANK. Then, if his intention had been to have insurance only for the limited period, his cost would have been much less if he had taken term insurance?

Dr. DAVENPORT. Yes.

Mr. FRANK. Would you not, therefore, assume that if he were well instructed and intelligent, he would not have taken out the ordinary industrial insurance for the short period?

Dr. DAVENPORT. That is a very great assumption which doesn't jibe with the facts as we understand them.

Mr. FRANK. But if he had been well-instructed.

Dr. DAVENPORT. If he were an intelligent prospect and had been well informed by the agent what you say is perfectly true.

Mr. FRANK. Then, in that sense you can say the intention which, if well instructed, he would have had, has been frustrated.

Dr. DAVENPORT. That is right.

Mr. HENDERSON. Dr. Davenport, again picking up on that, it is true, isn't it, that the most active of the agents selling policies and the one that comes to the attention of the workman most is the industrial policy agent?

Dr. DAVENPORT. Yes.

Mr. HENDERSON. Since the buying of one of these weekly policies is the only thing before him and he had merely a short period in mind, he would have taken that, although he could have done better if he had taken term insurance.

Dr. DAVENPORT. Yes.

Dr. LUBIN. Can you buy term insurance on a weekly basis?

Dr. DAVENPORT. There are some companies that sell it.

Dr. LUBIN. Whenever there is a surrender value in a policy and the policy is given up—let us assume that a man has a policy and if he suddenly finds that he can't continue to pay his premiums, he lets it lapse—does the policyholder automatically get the surrender value or must he make application for it or how does he proceed to get his share of the return?

Dr. DAVENPORT. Never having worked inside a life-insurance company, I don't know what the procedure is. I imagine that in the companies that do an industrial business where they don't know the name of the industrial policyholder, and he is merely known by a number, that sometimes they lose sight of the claims that might arise, and it is only when the family or the beneficiary to the policy makes inquiry of the company that the facts are known. In the case of the ordinary policies, I should imagine that the companies would know the name, address, and so forth, and would be much more likely to take the initiative.

Dr. LUBIN. In other words, as you understand it, it is possible for a policy to lapse without the individual getting his surrender value back, although there is a surrender value under the contract?

Dr. DAVENPORT. Well, I call your attention to the fact that if the policy lapses there is no surrender value that is accessible to him.

Dr. LUBIN. I am using the term "lapse" in the unscientific way. In other words, a man gets to the point where he can't continue to pay his weekly premium; lets the policy go. It is possible under those conditions, even though he may be entitled under his contract to some surrender value, that he may not get it.

Dr. DAVENPORT. That is right. There is a bill introduced in the New York State Legislature to attempt to recapture from the companies unclaimed moneys to the credit of the policyholders that have simply disappeared. I know in the case of the Massachusetts Savings Bank Life Insurance of one individual, a policyholder that disappeared. The man had apparently moved or died; they didn't know. They had \$8 a month to his credit because it was an endowment policy. They finally located the man. He himself didn't know he had any legitimate claim against that particular savings bank life-insurance department.

Mr. GESELL. Some of these matters, Dr. Lubin, will be considered as we proceed later on.

Mr. FRANK. May I ask this question—perhaps I am anticipating? In the period 1928 to 1937, more than 51 percent of these industrial policies lapsed. Have you any approximate notion of the number of persons who held such policies which thus lapsed?

Dr. DAVENPORT. In just a moment we shall introduce figures on the number of policies. We do not know the number of persons involved, but the number of policies will add a different light to this picture from what is given when we are talking about amounts.

Acting Chairman REECE. Do you think, Mr. Gesell, you expect to cover most of the ground that is approached by these questions and, therefore, prefer to proceed uninterrupted until the witness has completed his testimony?

Mr. GESELL. It is perfectly all right. I think perhaps if the questions are held until the completion of a single chart, we might move a little faster.

Mr. FRANK. We are admonished.

Acting Chairman REECE. You may proceed.

Dr. DAVENPORT. Still speaking of this first 10-year period, I have indicated that these three modes—lapse, surrender, and decrease—constitute terminations that represent the frustration of the intention of the policyholders when they took out their insurance. Together these modes of termination account for \$82 out of every \$100 of all insurance terminated. The modes of termination that represent the fulfillment of the objectives of the insured—death, maturity, disability, and expiry, including all of expiry though part of expiry may actually have occurred through frustration—combined, account for only \$18 out of every \$100 that terminated.

The decade just discussed was one of remarkable growth in life insurance; it occurred during the period of expanding industrial activity and increase in the standard of living.

During the second 10-year period, 1928 to 1937, inclusive, large amounts of new insurance were sold and large amounts of insurance were terminated. Except for 2 years, 1932 and 1933, the amount of insurance sold each year exceeded the amount terminated. The decade ended in 1937 with over \$96,000,000,000 of insurance in force, an amount that was \$16,000,000,000 greater than insurance in force in 1928. In this 10-year period the total of the ordinary and industrial insurance business that terminated amounted to 126 billion. As indicated in the accompanying exhibit, lapse accounted for over 51 percent; surrender, for almost 27 percent, and decrease for over 4 percent. These modes of termination combined accounted for \$83 out of every \$100 that terminated.

In comparing the experience of the first decade with that of the second, it will be noticed that the relative importance of lapses declined as the relative importance of terminations became greater. The total surrender of lapse, surrender, and decreases, representing the frustration of the policyholders' plans is almost exactly the same in the two decades.

Mr. GESELL. I would like to offer for the record at this time the chart entitled "Life Insurance in Force, Newly Issued, and Terminated," which was discussed by the witness and the supporting table.

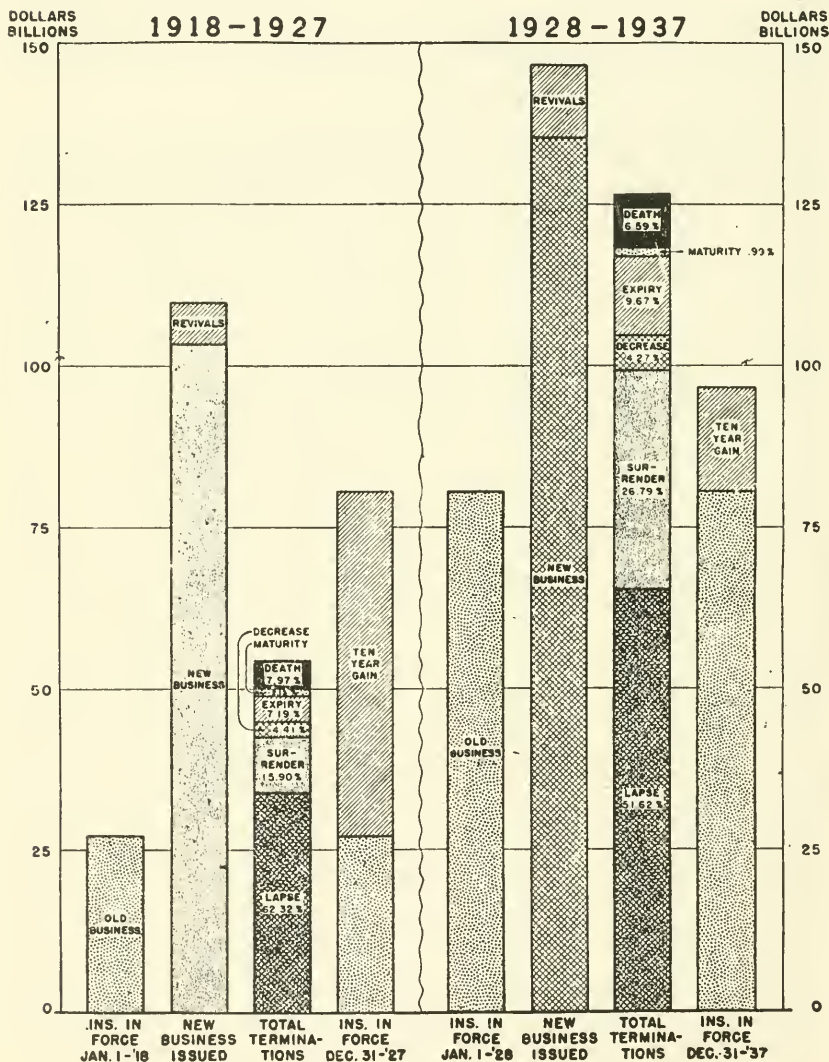
Acting Chairman REECE. It may be received.

(The chart referred to was marked "Exhibit No. 684" and appears on this page. The statistical data on which this chart is based are included in the appendix on p. 4737.)

EXHIBIT No. 684

LIFE INSURANCE IN FORCE, NEWLY ISSUED & TERMINATED*

AMOUNTS



*ORD. & IND. INS. COMBINED OF U.S. LEGAL RESERVE LIFE INS. COS.
REPORTED IN THE SPECTATOR INSURANCE YEAR BOOKS.

BB-1831 PREPARED BY SEC. & EXCH. COMM.

Acting Chairman REECE. I think Mr. Ballinger has a question that would be permissible.

Mr. BALLINGER. Is it true that the total amount of money received by insurance companies on lapsed policies is in considerable excess of the cost of writing policies and carrying that insurance?

Dr. DAVENPORT. That is a matter that is subject to considerable dispute, a matter in which the terminology that is employed in setting up the accounts of the insurance companies, convention forms in which they report to their respective superintendents and commissioners of insurance, leaves something to be desired, shall we say, in clarity; but I will touch upon that matter to the extent that I am able to.

Mr. BALLINGER. I wanted to ask this for information: I had always heard that because insurance companies put the time from 3 to 5 years before a policy has any surrender value, that the period is put that long because the chances are the policy will lapse, and if it lapses it is a clear gain to the insurance company over and above the cost of writing and carrying that insurance. If that is the case then the period ought to be reduced so the policy would have a quicker surrender value, I mean a nearer surrender value.

Dr. DAVENPORT. The law requires that upon the payment of the first premium a specified reserve should be set up against that particular policy, and the way in which that reserve accumulates out of successive premiums and out of the interest earned on that reserve is specific, it is definite. Now, actually, after you have taken out of the first year's premium and set up this reserve which is required by law and is in accordance with the actuarial tables and the assumption of the 3-percent interest earned on the reserve, after you have done what the law requires, there remains a portion of the first year's premium to pay expenses, agents' commissions, home-office expenses, and the actual share of that particular policyholder toward the death losses in that first year. Those claims, those expenses, exceed what is left after the first year's reserve is set up out of the first year's premium.

Mr. GESELL. Now we are going to consider, are we not, following this chart the nature of the gains and losses and surrenders and lapses shown on the convention forms, and discuss this matter in great detail at that time.¹

Dr. DAVENPORT. I think probably that will help answer your inquiry, Mr. Ballinger.

Mr. GESELL. You have before you, have you not, a chart entitled "Industrial Life Insurance in Force, Newly Issued and Terminated, Number of Policies"? ^{2 3}

Dr. DAVENPORT. That is correct.

Mr. GESELL. That chart has been prepared on the same basis as the previous chart except that it relates to numbers of policies rather than amounts of insurance and also is confined solely to industrial insurance rather than having both ordinary and industrial insurance combined?

Dr. DAVENPORT. That is right. This differs from the previous chart in that it is based upon the number of policies.

¹ *Infra*, p. 4312.

² Subsequently introduced as "Exhibit No. 685," *infra*, p. 4304.

³ In this connection see subsequent testimony of Dr. Davenport, and "Exhibit No. 949," Hearings, Part XII, p. 5607 et seq.

Mr. HENDERSON. As against dollars.

Dr. DAVENPORT. As against the dollar amount involved in the policies. Up to the present time we have been discussing the amount of insurance that terminated. Now we have turned in the case of industrial insurance to the number of policies involved. Again we have the period divided into two decades, 1918 to 1927 and 1928 to 1937. The scale on the chart runs from zero to 200,000,000 policies, number of policies. The first bar represents the number of old policies in force at the beginning of the first period. There were 38,763,000 industrial policies in force at the beginning of this 10-year period. During the 10-year period 127,800,000 new business, new policies, were put on the books of the companies.

In that same period of time 85,100,000 industrial policies terminated. The gain is represented by the difference between the new business and the amount that terminated. The gain, added to what we had before, brings the number of policies in force as of December 31, 1927, to 82,246,000.

Mr. GESELL. Now, if you will explain the period from 1928 to 1937 and make comparisons between the two periods, I think it would be helpful.

Dr. DAVENPORT. The second period started with 82,200,000 of industrial policies in force, and in this period the new business put on the books totaled 193,700,000 policies.

Mr. GESELL. Do you mean to say that there were 193,000,000 industrial policies written during the period of 1928-37?

Dr. DAVENPORT. One hundred ninety-three million seven hundred thousand.

Mr. HENDERSON. That was an average of about 19,000,000 a year.

Dr. DAVENPORT. That is right; a 10-year period.

Mr. GESELL. And from writing all that—

Dr. LUBIN (interposing). That includes the policies revived, too, does it not?

Dr. DAVENPORT. That includes the policies revived.

Mr. GESELL. From writing all that business what was the net gain?

Mr. DAVENPORT. The net gain is 6,600,000 policies.

Mr. GESELL. In other words, over \$193,000,000 policies were written to accomplish a net gain of around 6,500,000.

Dr. DAVENPORT. That is right. We climbed up that many steps in the ladder and we dropped back this many rungs in the ladder. We actually made a net gain of 6,600,000.

Mr. FRANK. That is a little over 3 percent.

Dr. DAVENPORT. Yes; about 4 percent, I should say, of the total of new business.

Mr. GESELL. And of the policies that went off the books during that period, what percentage of them went off by lapse?

Dr. DAVENPORT. The lapse percentage is shown by the heavy red segment, the bottom segment of the bar which is next to the last bar on the chart. That percentage was 70.68 percent of 187,800,000 policies that terminated. Seventy point sixty-eight percent of them terminated by lapse.

Mr. FRANK. Or, in number, that was 132,700,000, approximately.

Dr. DAVENPORT. The figures are given at the bottom of the chart; 132,708,000 policies terminated by lapse in this 10-year period.

Dr. LUBIN. Mathematically it means that for every family in the United States four policies lapsed during that period—a minimum of four policies lapsed.

Dr. DAVENPORT. Yes; but of course we have to recognize that it is only the lower income families that buy this kind of insurance, so if you segregated your population on an income level it would have to be a larger figure for the average family that actually is exposed to the purchase of this kind of insurance.

Dr. LUBIN. I was interested in Mr. Gesell's question, namely, that 193,000,000 policies had been sold during that period, which means that for every family in the United States six policies were sold.

Dr. DAVENPORT. That is right.

Mr. GESELL. Now will you make the comparison between one period and the other.

Dr. DAVENPORT. I think probably the most interesting comparison is between the third bar in the first part of the chart, "Total Policies Terminated," and the next to the last bar in the second decade, "Total Policies Terminated."

Mr. GESELL. You are comparing the termination experience of the 10-year periods.

Dr. DAVENPORT. The termination experience in the 10-year periods. You will note that in the first 10-year period almost 82 percent of the terminations terminated by lapse; in the second period 70.68 percent terminated by lapse. Surrenders in the first period accounted for 7.39 percent; in the second period surrenders had increased to 20.47 percent. Deaths accounted for 7.34 in the first period; in the second period deaths accounted for 4.45 percent only.

Mr. GESELL. I think I can properly say, "What was that?" due to the buzzer. How much by death during the 1928 period?

Dr. DAVENPORT. Four and forty-five one-hundredths percent of the terminations. Of the number of industrial policies that terminated in the 10-year period from 1928-37, 4.45 percent of them terminated by death. In the previous period, 7.34 percent terminated by death.

Dr. LUBIN. I may appear to be naive, but I do want to ask a question which occurs to me. How do you account for the fact that the American people buy 193,000,000 policies in a period of 10 years? In other words, how does it happen? Are people so anxious to have insurance that they are willing to do almost anything to get it?

Dr. DAVENPORT. Well, of course, the institution of insurance satisfies a very deeply rooted desire on the part of the average man. In part it is an answer to that, but that has been present all the time. In part it is a tribute to the perfection of the art of salesmanship and the organization of large crews of selling agents. I think we have learned a technique of selling life insurance.

Dr. LUBIN. Are you implying that we have learned the technique of taking advantage of this fundamental desire for security?

Dr. DAVENPORT. I am not impugning the motives of the insurance company or the agent.

Mr. HENDERSON. But in all this squirrel-cage activity in that 193,000,000 you pointed out there must have been some workers that had five, six, eight, and nine policies.

Dr. DAVENPORT. We find cases where they have as many as 20 industrial policies.

Mr. HENDERSON. As many as how many?

Dr. DAVENPORT. Twenty industrial policies in force in a particular family.

Mr. HENDERSON. But I mean in this period 1928-37, if you took all the working population there was, there must have been an average of at least four policies to each member of the labor force.

Dr. DAVENPORT. Many of the policies were written on children, on the wives, on other members of the family.

Mr. GESELL. But the net result of this tremendous selling of new policies with a very small gain is that there must be a continual turnover of policies within a single family or family group.

Mr. HENDERSON. Are you trying to avoid my characterization of this as squirrel-cage activity? It seems to me you are going around the barn.

Mr. GESELL. There must be continual selling and reselling of policies to the same family and individual, must there not?

Dr. DAVENPORT. I am sure that occurs.

Mr. GESELL. There are not 193,000,000 people in the United States, are there, Dr. Davenport?

Dr. DAVENPORT. No; according to the Census about 130,000,000.

Mr. GESELL. Every time a policy lapses there is some loss to the policyholder, is there not?

Dr. DAVENPORT. It means he has paid a great deal more for the protection that he had than was necessary.

Mr. GESELL. So that as this process continues and he is sold and resold and sold again, he, as a laboring man, is suffering continual loss every time that occurs, is he not?

Dr. DAVENPORT. That is perfectly true.

Mr. FRANK. If he took term insurance, there would be no such loss, I assume.

Dr. DAVENPORT. That is right. The cost of term insurance would be much lower and would be more in proportion to the actual expenses involved covering him, giving him what he actually got.

Mr. FRANK. In buying ordinary industrial insurance he is paying for something which he does not get if there is a lapse?

Dr. DAVENPORT. That is right.

Mr. GESELL. I would like to offer for the record at this time a chart entitled "Industrial Life Insurance in Force, Newly Issued and Terminated, Number of Policies," and the supporting schedule which we have just been discussing.

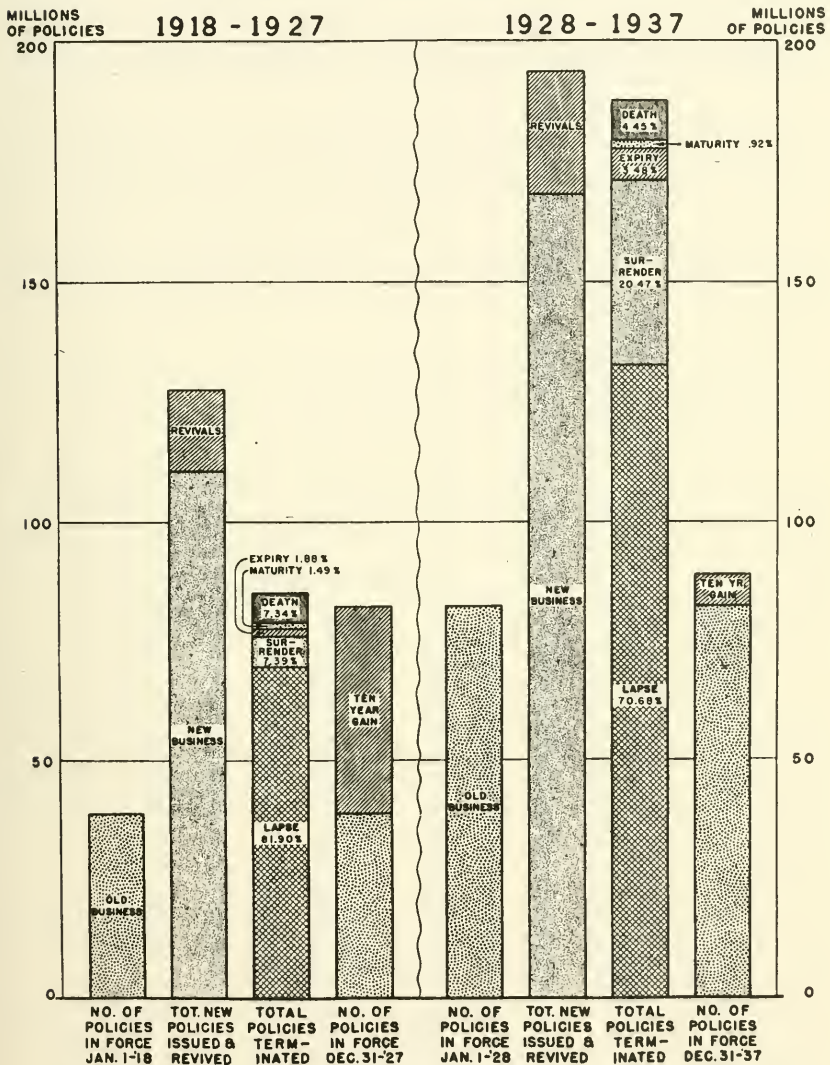
Acting Chairman REECE. They may be received.

(The chart referred to was marked "Exhibit No. 685" and appears on p. 4305. The statistical data on which this chart is based are included in the appendix on p. 4739.)

EXHIBIT No. 685

INDUSTRIAL LIFE INS. IN FORCE, NEWLY ISSUED & TERMINATED*

NUMBER OF POLICIES



*INDUSTRIAL INS. OF U.S. LEGAL RESERVE LIFE INS. COS.
REPORTED IN THE SPECTATOR INS. YEAR BOOKS.

DS-1230 PREPARED BY SEC. 8 EXCH COMM.

Mr. GESELL. So far, Dr. Davenport, we have been considering the business as a whole. Take this problem of industrial insurance policy terminations. Have you prepared certain studies of the experience of representative industrial companies?

DR. DAVENPORT. We have a study that shows the experience of seven companies selling industrial life insurance.

MR. GESELL. That is a schedule entitled "Industrial Insurance—Termination, Experience of Seven Companies,"¹ is it not?

DR. DAVENPORT. Correct.

MR. GESELL. Will you describe what that schedule demonstrates?

DR. DAVENPORT. The seven companies from which this information was assembled are listed at the top of this table. They are the Metropolitan Life Insurance Co., Prudential Insurance Co., Western & Southern Life Insurance Co., Life Insurance Co. of Virginia, Equitable of the District of Columbia, Washington National, and the Peoples of the District of Columbia. The chart is arranged in three segments of the exhibit. The first segment relates to the experience in the period 1924–28; the second the period 1929–33, and the third the period 1934–38. Both amounts and percentages of terminations are given. For example, for the Metropolitan Life Insurance Co. in the first period, \$3,798,210,000 of industrial insurance terminated. Of that amount of terminations 76.48 percent terminated by lapse and 5.88 terminated by death. Perhaps it would be easier to follow the table by merely reading down through the columns that are headed "Percent."

Metropolitan percents: Death, 5.88 in the first period; lapse, 76.48. In the second period, death, 4.23 percent; lapse, 58.72 percent. In the last period, death, 5.49; lapse, 50.31 percent.

MR. GESELL. How does that compare, say, with the Peoples?

DR. DAVENPORT. We will take the row headed "Death" and run right across the page. You can see the variety of experience is revealed by these seven companies. Death for the Metropolitan in the first period, 5.88; for the Prudential Insurance Co. of America, 5.93; for the Western & Southern Life Insurance Co., only 2.71; Life Insurance Co. of Virginia, 4.41; the Equitable of the District of Columbia, 1.86; the Washington National, 1.22; Peoples, 1.23.

MR. GESELL. Will you do the same thing with the lapse line for that first period?

DR. DAVENPORT. Certainly. We will run across the row entitled "Lapse," and we find that in the Metropolitan 76.48 percent terminated by lapse; in the Prudential, 76.26; in the Western & Southern, 88.23; in the Life Insurance Co. of Virginia, 83.13; in the Equitable of the District of Columbia, 92.08; in the Washington National, 98.40; in the Peoples, 98.74.

MR. GESELL. That is the all-high on this schedule, is it not, 98.74 percent?

DR. DAVENPORT. That is the highest figure reported on this schedule. We have listed only seven companies. We might find others where it would be even, perhaps, higher than that.

MR. GESELL. Will you tell us what the basis of selection of these companies has been? The Metropolitan and the Prudential, as we know, are the two principal companies selling industrial insurance.

What about the other five companies? How do they rank?

DR. DAVENPORT. We took in two of the largest, two medium-sized companies, and two companies that are in between, as you can see from the amounts of insurance that terminated, for example, in the Metro-

¹ Entered later as "Exhibit No. 686," see appendix, p. 4739.

politan, \$3,798,210,000 in that first 5-year period; in the Prudential, \$3,717,814,000; in the Western & Southern, only \$611,000,000; in the Life Insurance Co. of Virginia, \$211,000,000. Now we come down to companies that are somewhat smaller, the Equitable of the District of Columbia, almost \$55,000,000; the Washington National, \$35,000,000; Peoples, \$181,000,000. These companies are not new companies. The Metropolitan was organized in 1879, the Prudential in 1873, the Western & Southern in 1888, Life Insurance Co. of Virginia in 1871; Peoples began in 1916.

Mr. GESELL. You are talking now of the dates, not of the organization of the company, but the date they started to write industrial business.

Dr. DAVENPORT. That is correct; the date they began doing industrial business. The Equitable Life Insurance Co. of the District of Columbia, 1902, and the Washington National was formed as a merger in 1926 of other companies; the other companies had industrial business in force at the time of the merger.

Mr. GESELL. Would you say this is a representative group of industrial companies and that by and large it represents the more important industrial companies?

Dr. DAVENPORT. Well, certainly there is no question about the Metropolitan and the Prudential being the most important industrial companies. Those two companies together probably account for \$15,000,000,000 of insurance in force in 1937, and industrial insurance in force was about \$20,000,000,000. Those two companies alone take almost two-thirds or three-fourths of the total.

Mr. GESELL. Is it fair to say that you view the period from 1924 to 1928, the period from 1929 to 1933, and from 1934 to 1938, as shown on this schedule, as prepared on a comparable basis and by and large, as showing comparable results?

Dr. DAVENPORT. I think the figures do not show any great difference in the three periods, with the exception of the last period. If you will come down to the last period and run across on the line labeled "Lapse," you will find that the Metropolitan had 50 percent of its policies that lapsed in that period, the Prudential only 22.5. This was a sudden change in the characteristic of terminations of the Prudential's insurance, and an explanation is in order. The Prudential liberalized its industrial-insurance policies by a provision which in effect was this: That a policy that was in force for 3 weeks, if it lapsed and no more premiums were paid on it, would be carried on for 1 additional week as a term policy. At the end of that week, if no additional premium was collected it would then terminate as a term policy terminates by *expiry*. Consequently, the expiries jump up in this last period, although fundamentally the reason for the termination is essentially the same as the reason in the previous periods before they liberalized the policies, when such a policy was called a lapse.

Mr. GESELL. All that has happened is that the policyholder has gotten a slightly greater amount of protection for the money that he paid in.

Dr. DAVENPORT. That is correct.

Mr. HENDERSON. One week?

Mr. DAVENPORT. He has been given 1 week for every three weeks the policy had been in force.

Mr. HENDERSON. One week for every three; so if at the end of 30 weeks—

Dr. DAVENPORT (interposing). He would have 10 weeks' additional coverage at no additional expense to himself.

At the end of that 10 weeks, then the policy passes out by *expiry*.

Mr. HENDERSON. Yes; but if he took Prudential, they had an *expiry* rate on the first period of about 5.5 percent and about 5 percent in the second period. If you took, say, 6 percent of that *expiry* rate of 33 percent as a liberal allowance for *expiry* on their usual experience in the two previous periods, there would remain about 27 percent which ought to be added to their lapse.

Dr. DAVENPORT. That is correct.

Mr. HENDERSON. Making it 49.50, or almost the same again as the Metropolitan.

Dr. DAVENPORT. With that adjustment, the percentages that represent termination by frustration of the objectives of the policyholder at the time he was sold his insurance remains about the same throughout the period.

Mr. GESELL. I would like to offer for the record at this time the schedule quoting the experience of the companies Dr. Davenport has just been discussing.

Acting Chairman REECE. It may be received.

(The schedule referred to was marked "Exhibit No. 686" and is included in the appendix on p. 4739.)

Mr. GESELL. Coming to the question Mr. Ballinger raised slightly earlier in the period, am I correct in stating, from the gain-and-loss exhibits of the various companies as compiled in the Spectator Yearbook, you have prepared a statement showing the net gains or losses from the surrendered and lapsed policies both for ordinary and industrial, as reported by the companies for the years from 1918 to 1937, inclusive?

Dr. DAVENPORT. That is correct.

Mr. GESELL. Now, will you explain in more detail for the committee what is shown on that schedule and how it was prepared?

Dr. DAVENPORT. The schedule lists for each year from 1918 to 1937 the number of companies from which this information was assembled in the Spectator. The number of companies was 144 companies that reported this information.

Mr. HENDERSON. In 1918.

Dr. DAVENPORT. In 1918. The next year it was 165. We come down at one time to when it was 283 companies, from which this information was available that particular year. The last year, 1937, there were only 250 companies included in the aggregate. The column at the right is entitled "Net gain or loss." I should like to read this as I phrased it rather carefully.

In the gain and loss exhibits contained in convention forms, which the life-insurance companies submit to their respective insurance commissioners, there appears an item designated as "Net gains or losses"—surrendered and lapsed policies. Each year the amounts under this heading reported by a large number (the number stipulated over here) of companies are summarized in the Spectator Insurance Yearbooks. These summaries, covering the years 1918 through 1937, are presented in the accompanying table. If these amounts represent what is indicated by their title, it appears that

the life-insurance business gains from the fact that such a large amount of the life insurance terminates through lapse and surrender. In every year covered by this table gains were reported. The total gain from this source over the 20-year period amounts to over 1.3 billion dollars, and average of \$66,000,000 a year.

Mr. FRANK. That is a total for the period?

Dr. DAVENPORT. That is the total for the period 1918 through 1937.

It is maintained by life-insurance officials that the amounts reported as gains from this source are not really profits. It is contended that the reserve which the law requires the company to set up against each policy takes so much of the premiums for the first few years that there is not enough left to pay the full costs of acquisition. That is the home office expense, and so on. Therefore, the company must borrow from its surplus to meet part of the selling costs. When insurance is terminated by lapse or surrender, the gain reported therefrom is merely a recovery of these sums and is transferred back to the surplus. However this may be, this much is perfectly clear—the figures given show that the policyholders whose insurance terminated by lapse and surrender lost at least this amount of their savings. In other words, the total of the policyholders' reserves that was not returned to policyholders upon the lapse or surrender of their policies amounted to 1.3 billion dollars in these 20 years.

Mr. BALLINGER. In this chart you combine surrender and lapse policies. Is it possible to separate them?

Dr. DAVENPORT. They are not separated in the convention forms.

Mr. BALLINGER. Would it be possible to find out from 1918-37 the total amount of money paid in to insurance companies on lapsed policies, the total amount paid in before the policies lapsed?

Dr. DAVENPORT. Probably by interrogating the companies' directors we might get that information, of the items which the convention report does not segregate.

Mr. BALLINGER. I should think on a surrendered policy the gain that the company made, if anything, would be very slight, but I should think on a lapsed policy the gain might be considerably more.

Dr. DAVENPORT. There is a surrender charge that is imposed. It varies in different States and it varies in the same State with different companies. The law usually stipulates the maximum surrender charge that can be imposed upon the termination of a policy by surrender, and that is imposed presumably on the theory that certain expenses are involved in terminating that policy, and also, quite frankly, upon the theory that there should be some kind of incentive for the policyholder not to give up his program of coverage and savings.

Mr. BALLINGER. I mean 3 to 5 years might be pretty strong incentive and also it might be one to break the back.

Dr. DAVENPORT. I have some figures that deal with the practice. Under the New York law a certain maximum surrender charge is allowed. The surrender charge the third year for the Mutual Life of New York is \$13.25. The policyholder would get back two-thirds of the reserve against his policy at the end of the third year. At the end of the fourth year the surrender charge is \$13.40. He would get back, then, 25 percent of the reserve against his policy. The percent that is imposed as a surrender charge runs down from 33⅓ percent in the

third year to 1 percent in the nineteenth year. That is the Mutual Life of New York's schedule on surrender charges. In the case of the Northwestern Mutual Life Insurance Co., the surrender charge on the second year is \$16 per thousand; \$14 per thousand the third year; and then it drops down so that by the ninth year it is only \$2 per thousand.

Mr. GESELL. This figure of \$1,338,000,000 that you have mentioned for this 20-year period is simply the figure as shown on the gain-and-loss exhibits of the various companies, is it not?

Dr. DAVENPORT. That is the figure that is reported in the Spectator Insurance Yearbook. It represents a consolidation of those items reported by the individual companies in their convention forms.

Mr. GESELL. Is it your contention that the \$1,338,000,000 is all that the policyholders lose whose policies lapse and are surrendered, or is it rather your contention that this is the only figure bearing on that matter which can be obtained from published sources?

Dr. DAVENPORT. This is the only figure that we can obtain readily which seemed to have a clear connotation. If we mean by "lose" what the policyholder loses, the first 2 or 3 years that he has paid for the premium and eventually has a lapse of policy. I think we have to define a little more clearly what are the legitimate costs to be imposed against it. That has never been satisfactorily defined. Until we do that, and agree to it, I would be loath to attempt to estimate what is lost. This is a minimum.

Mr. GESELL. That would get, for example, into the whole question of whether there have or have not been in certain companies excessive acquisition costs charged against the policyholders brought in for this short period of time and lapsed.

Dr. DAVENPORT. Yes; and whether the new policyholder should pay the entire acquisition cost of putting his policy on the books of the company; should pay his share of the commission, the expenses of the insurance agent calling upon 20 other people whom he didn't sell.

Mr. GESELL. I have no further questions.

Mr. FRANK. May I ask a question? Have you any figures showing the total amounts of premiums paid in on industrial policies, poor man's insurance, with respect to lapsed policies?¹

Dr. DAVENPORT. We haven't those figures segregated, Mr. Commissioner, but we would be very glad to assemble them and introduce them later.¹

Mr. FRANK. Have you any figures to show how much of that amount thus paid went to pay agents for soliciting insurance in the first place, and for collecting premiums?²

Dr. DAVENPORT. Those figures are not in shape to give them to you now.

Mr. FRANK. Could it be said that, even assuming that the companies did not gain as a result of lapses in the manner indicated, nevertheless the insured in these lapsed industrial policies were paying a very considerable amount for the expenses of the company in connection with solicitation and collection of premiums by agents?

Dr. DAVENPORT. I think there is no question but that these policyholders that have to lapse their policies pay a great deal more than

¹ In this connection see subsequent hearings on industrial insurance, Hearings, Part XII. See also, *infra*, p. 4312.

² *Ibid.*

they would have to pay for what they actually got in the way of protection.

Mr. FRANK. Have you any figures to show what the difference would be in cost to the insured, on this poor man's insurance that lapses, the difference between what it costs those people in the aggregate and what it could have cost them if they had taken out term insurance?

Dr. DAVENPORT. We haven't for the industrial. The picture that we have here shows only for the ordinary whole-life policy of \$1,000.¹ It would be a considerably worse picture if we could get that for typical industrial policies.

Mr. GESELL. Is it not true that published reports considering various ages upon which the policyholders come into a company, the various types of policies they have, the various periods within which lapse and surrender occur make it impossible to prepare the type of figure that Commissioner Frank has just mentioned?

Dr. DAVENPORT. We could make illustrative examples of what happens to a particular policyholder at a certain age taking out a certain kind of policy, but it is very complicated to present the over-all.

Mr. FRANK. Assuming, and I think from my limited knowledge correctly, that where the intention of the policyholder is not frustrated, to use your terminology, that industrial insurance would be better than term insurance, nevertheless does the experience indicate that so large a proportion of such insurance lapses that it would be better in the aggregate for poor men taking our insurance to have taken out term insurance rather than industrial insurance which they did take out?

Dr. DAVENPORT. I am coming rapidly to that conclusion. Comparing what they actually got, the cost of what they actually had in the way of protection, with what it would have cost them to get that protection in another way, probably these people who have to pay their premiums on a weekly basis would have been much better advised not to try to take insurance that accumulatively involved a savings element.

Mr. FRANK. In other words, a good argument could be made certainly for a man of means in favor, in certain circumstances, of his taking ordinary life instead of term. But where the experience indicates that the great bulk of the policies, or so large a proportion, are going to lapse and mean nothing so far as the insured is concerned except in terms of its consequences as term insurance, then term insurance would be what he ought to take out?

Dr. DAVENPORT. There is a possibility that a different marketing mechanism, a different method of distributing industrial life insurance that would be much less expensive than the present method, could be devised which would enable these poorer people to obtain the same kind of insurance that the wealthier man gets at a much lower cost.

Mr. FRANK. What, from your study of the subject, do you think is the motivation of the company in seeking to sell to poor people the kind of insurance that they do rather than the less expensive type which, you say, would be more serviceable to these poor people taking out insurance?

¹ See "Exhibit No. 682," *supra*, p. 4286.

Dr. DAVENPORT. Well, it started this way. It got a big momentum. They have a big organization of agents. They know how to handle those agents in the old methods; any great change in the method of applying agents' incentives is rather difficult to accomplish.

Mr. GESELL. May I say that this afternoon and for some period of time tomorrow we will present representatives of the insurance business and interrogate them on that point? Dr. Davenport's presentation here has been, as far as we have been able to make it, purely a statistical presentation of background material for the study.

Mr. FRANK. Just to clarify my own thinking, perhaps I have been anticipating this, I would like to get Dr. Davenport's reaction. Leaving out the so-called gains with reference to which you have testified, it would appear that, so far as the companies are concerned, they get no financial advantage from the loss to the insured whose policies terminate and whose intentions are frustrated.

Dr. DAVENPORT. In many cases they claim that unless the insurance policy has been in force for 3 or 4 or 5, and in some cases 7 years they actually suffer a loss; that is, the continuing body of policyholders has lost by reason of getting this man in for such a limited period of time.

Mr. FRANK. So that there appears to be no strong profit incentive on the part of the companies in the maintaining of this present system.

Dr. DAVENPORT. As most of these companies are mutual companies, consequently the profit motive shouldn't predominate.

Mr. FRANK. The explanation, therefore, must be found, as you indicate, rather in inertia than in selfishness.

Dr. DAVENPORT. I should think so.

Mr. GESELL. May I offer for the record a schedule entitled "Net gains and losses from surrendered and lapsed policies"?

Acting Chairman REECE. It may be admitted.

(The schedule referred to was marked "Exhibit No. 687" and is included in the appendix on p. 4740.)

(Whereupon, at 12:35 p. m., a recess was taken until 2:15 p. m. of the same day.)

AFTERNOON SESSION

(Whereupon the hearing was resumed at 2:20 o'clock, upon the expiration of the recess.)

Acting Chairman REECE. The committee will come to order. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. I am.

Before calling the first witness, one or two points came up due to questions of the committee this morning that I would like to mention. First, the question was asked as to what the total of premiums received by the industrial companies was,¹ and for 1937 the best figure we were able to find available showed 66 of the 140 companies had a premium income from industrial insurance of in the neighborhood of \$775,000,000. Also, the question was asked as to how much industrial insurance is whole life insurance and how much is endowment.² From

¹a. p. 4310.
²nt. p. 4292.

figures as of December 31, 1937, it would appear that there are about 50,000,000 whole life policies, and 33,000,000 endowment policies in the industrial field, and in terms of amount there is almost twice as much whole life as endowment in force.

The first witness to be called this afternoon is Mr. Gilbert A. Clark.

**TESTIMONY OF GILBERT A. CLARK, ACTUARY, EQUITABLE LIFE
INSURANCE CO., WASHINGTON, D. C.**

Acting Chairman REESE. Mr. Clark, do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CLARK. I do.

Mr. GESELL. Mr. Clark, you are actuary and vice president of the Equitable Life Insurance Co. of Washington, D. C., are you not?

Mr. CLARK. Yes, sir.

Mr. GESELL. Your company writes industrial insurance, does it not?

Mr. CLARK. Both ordinary and industrial.

Mr. GESELL. Is your principal business industrial or is your principal business ordinary?

Mr. CLARK. Two-thirds industrial and about a third ordinary.

Mr. GESELL. How long has your company been writing industrial insurance?

Mr. CLARK. Since 1887. The company was organized in 1885 under the laws of the State of West Virginia and wrote only 5-year endowment policies until 1887. In 1902 the company was reincorporated under the laws of the District of Columbia.

Mr. GESELL. And how many States does your company do business in?

Mr. CLARK. Five States, including the District of Columbia.

Mr. GESELL. Those States are in the neighborhood of the District of Columbia?

Mr. CLARK. Delaware, Maryland, West Virginia, and Ohio.

Mr. GESELL. How long have you been with the company?

Mr. CLARK. Fifty years.

Mr. GESELL. Now, as of the end of 1938, how many industrial policies were in force in your company?

Mr. CLARK. Industrial, 288,416.

Mr. GESELL. And how much insurance did that represent?

Mr. CLARK. Sixty-seven million, one hundred seventy-one, two-hundred-thirty-four.

Mr. GESELL. Am I correct in saying that your company is, in terms of size, with relation to other industrial companies, about seventh or eighth, somewhere along there?

Mr. CLARK. No; I don't think we come up that high on the list; possibly tenth or eleventh.

Mr. GESELL. Somewhere in that neighborhood. And you have about less than 1 percent of total industrial insurance in the country in force? Do you know, in terms of amount?

Mr. CLARK. I don't know; I can't say; I don't know the total amount in force.

Mr. GESELL. Have you prepared a schedule showing the experience in terminations of your company in the period of January through March 1939?¹

Mr. CLARK. I have.

Mr. GESELL. Is that a copy of the schedule?

Mr. CLARK. That is right.

Mr. GESELL. Will you tell us what that schedule purports to show and on what basis it was compiled?

Mr. CLARK. This purports to show the duration for which premiums were paid on the termination of those 3 months. Column No. 1 shows the period. That runs down for 51 weeks and then drops off into years, 1 year, 2 years, 3, 4, 5, and then I take it up in groups of 5 years each, 6 to 10, 16 to 20, and so on down; the last one is 51 to 55 years.

Mr. GESELL. You mean you took all terminations of policies during the period from January to March through 1939 and classified those terminations, first, as to the period in which the policy involved had been in force?

Mr. CLARK. Yes; that is it.

Mr. GESELL. Then did you also classify the terminations in terms of voluntary and involuntary terminations?

Mr. CLARK. Yes; we first took all terminations. Then we showed terminations by death and maturity, and then the difference between those two we considered voluntary terminations.

Mr. GESELL. Voluntary terminations would be all terminations other than terminations by death or maturity?

Mr. CLARK. Yes; that would include a lot of cash surrenders.

Mr. GESELL. Now this schedule shows, does it not, that by number of policies 11.9 percent terminate within the first week that they are in force.

Mr. CLARK. Yes; that item shows policies on which only one premium was paid on each policy.

Mr. GESELL. So on those policies you had only received one premium before termination.

Mr. CLARK. Yes.

Mr. GESELL. Then am I correct in saying that some 48.4 percent of your policy terminations during this period were voluntary terminations on policies which had been in force 25 weeks or less?

Mr. CLARK. That is right.

Mr. GESELL. And by the end of the first year your terminations during the period were some 60 percent voluntary on policies which had not been in force more than the year period.

Mr. CLARK. That's right.

Mr. GESELL. Now, calling your attention first of all to the 11.9 percent of your policies which terminate after one premium has been paid, is there some special explanation for that high percentage in that week, and if so what is it?

Mr. CLARK. Well, we can only surmise to a certain extent that these people are supposed to make a deposit of 1 week's premium before the policy is issued and the agent being unable to collect that premium has advanced the money himself. Probably in quite a number of those cases the insured did not pay the premium, the premium was paid by the agent.

¹ Subsequently introduced as "Exhibit No. 688," *infra*, p. 4317.

Mr. GESELL. In an effort to put business on the books.

Mr. CLARK. Yes; that is right.

Mr. GESELL. And so even if we make adjustment for that high termination rate in the first week, it is clear, is it not, that by the end of the twenty-fifth week—or rather that some 37 percent of your policies terminate within the first 25 weeks by voluntary causes—for voluntary causes, rather.

Mr. CLARK. At least that.

Mr. GESELL. Probably the figure is somewhat higher?

Mr. CLARK. Yes.

Mr. GESELL. Now, have you made an effort to find out whether your company makes money or loses money by these voluntary terminations?

Mr. CLARK. No; we have not. I think we would be better off if they did not terminate. We prefer that the insured do not terminate their policies.

Mr. GESELL. Taking your policies that lapse specifically, those are all policies which go off the books sometime during the first 3 years they are in force, are they not?

Mr. CLARK. Yes; there is no value in those policies.

Mr. GESELL. Do I understand you to say that your company does not profit for any of those lapses during the first 3 years?

Mr. CLARK. Oh, there must be profit on some of them, I think.

Mr. GESELL. Would you say that probably those policies which lapse sometime after they have been in force 2 years and before they have been in force 3 years are the policies upon which your company makes some money?

Mr. CLARK. Probably so; there is some profit there.

Mr. GESELL. Is there any way you can definitely determine the top and bottom period within which your company makes money by lapse?

Mr. CLARK. No; I don't see any method of doing that.

Mr. GESELL. Have you ever been able to make any estimate as to the amount of money involved?

Mr. CLARK. No; we cannot on account of the cost of opening new territories. We assume that we will not make any money under 10 years in a new district.

Mr. GESELL. Mr. Clark, is it clear in your mind that these policyholders who lapse lose? They, as policyholders, lose, do they not? The policyholders themselves lose, regardless of whether the company makes or loses.

Mr. CLARK. There is no doubt about that.

Mr. GESELL. And as to whether or not the company makes money, or how much, I understand you to say that on this lapsed business you have no specific figures.

Do you know of any company which does make that type of computation?

Mr. CLARK. No; I have never seen anything of the kind.

Mr. GESELL. Your company is a stock company, is it not?

Mr. CLARK. Yes.

Mr. GESELL. It is rather important from the point of view of the management for your company to know whether it is making or losing money on this lapsed business, is it not?

Mr. CLARK. Well, I don't know. At the end of the year, if we have found out we have made some money we are satisfied. We don't have to look to see exactly where it came from.

Mr. GESELL. But part of the profits which have been made have been made from lapsed business, have they not?

Mr. CLARK. Well, probably so.

Mr. GESELL. Can you give us any idea as to the reasons why policies lapse?

Mr. CLARK. I talked to the supervisor of our field force in regard to this matter. There are various reasons given. As to the industrial class of people, a great many of them can be sold anything provided the installment payments are small, and often they become overloaded with installment payments. This is one reason.

There is another explanation. Many of these people are in-and-outers as far as insurance is concerned. A great many of them become insurance-wise. They go into one company, pay premiums for a week or two and at the expiration of the 4 weeks' grace period they insure in another company, and continue this practice to quite an extent. This is based on statements of some of our field force.

Mr. GESELL. Then we have so far two; one that some policyholders are in-and-outers, and the policyholders are frequently overloaded both with insurance and other forms of installment commitments. Are there any other reasons?

Mr. CLARK. There is a question of removal. These people often move, and the agent is not able to ascertain the new address. They cannot find them. Whether it is deliberate on the part of the mover I do not know. They disappear and we can't locate them.

Mr. GESELL. Are there any other reasons? What about the selling and agency side of the question?

Mr. CLARK. There is some high-pressure salesmanship in the selling of industrial insurance. That is apt to take place where a person surrenders a policy for cash and the agent wishes to replace it, and uses a little pressure there.

Mr. GESELL. You mean that when an industrial policyholder turns in his policy and gets a cash value, the agent attempts frequently to turn that money right back into new insurance?

Mr. CLARK. Well, he doesn't try to get all of it. He tries to get part of it, anyway, and to replace the policy which has gone off his books.

Mr. GESELL. Do you think that frequently, perhaps, agents sell more industrial insurance to the policyholder than he can afford to carry because of his other installment commitments?

Mr. CLARK. Yes; that is true.

Mr. GESELL. In terms of your company, do you find that you have a difficult time getting a high grade of business because of the competition of the larger companies, and is that a factor in your lapse experience?

Mr. CLARK. Well, I assume that the larger companies can get a slightly better grade of business than we do. So far as competition is concerned, we are not worried.

Mr. GESELL. You think you have the same grade of business as, say, Metropolitan and Prudential?

Mr. CLARK. I imagine very close. We may not have quite as good, but we have a very good grade of business.

Mr. GESELL. What about the agents?

Mr. CLARK. We have more turn-over than the larger companies, because we do not have such large debits which we can give a man.

Mr. GESELL. And this factor of agency turn-over brings about a high-lapse experience, does it not?

Mr. CLARK. Yes; it does. Every time an agent leaves it means there will be a rather good amount of lapses against the company.

Mr. GESELL. Are there any other factors?

Mr. CLARK. I don't think of any at this moment.

Mr. GESELL. I would like to offer for the record at this time the chart which Mr. Clark identified, showing the experience of his company.

Acting Chairman REECE. It may be admitted.

(The chart referred to was marked "Exhibit No. 688" and is included in the appendix on p. 4740.)

Mr. GESELL. I have no further questions of Mr. Clark.

Acting Chairman REECE. Are there any questions by the committee?

(None.)

Mr. GESELL. Thank you, Mr. Clark.

(The witness, Mr. Clark, was excused.)

Mr. GESELL. The next witness is Mr. John Marshall Holcombe.

Acting Chairman REECE. Do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HOLCOMBE. I do.

TESTIMONY OF JOHN MARSHALL HOLCOMBE, JR., DIRECTOR, LIFE INSURANCE SALES RESEARCH BUREAU, HARTFORD, CONN.

Mr. GESELL. Will you state your full name, please, sir?

Mr. HOLCOMBE. John Marshall Holcombe, Jr.

Mr. GESELL. What is your business, Mr. Holcombe?

Mr. HOLCOMBE. Manager, Life Insurance Sales Research Bureau.

Mr. GESELL. That is at Hartford, Conn., is it not?

Mr. HOLCOMBE. Yes, sir.

Mr. GESELL. Will you tell us who and what the bureau is?

Mr. HOLCOMBE. The bureau is the organization consisting of ninety-odd life-insurance companies in the United States and 15 in Canada. The purpose of the bureau is to study the problems of distributions of ordinary life insurance to the end that we shall thereby assist the companies in better distribution. It is the only bureau of its kind, we are told, in the country, whose sole purpose is to study the distribution problem in that particular business, one of its primary purposes being to make for more efficient distribution among the companies which are members of the bureau. Its significance is partly, at least, that it undertakes to achieve the benefits that can come from research and distribute them to all of the membership.

All of the membership gets the information from our research, and in that manner we are undertaking to do for the business and to pass on to the consumer the knowledge which we secure from research, its purpose being to achieve a better form of distribution and thereby eliminate gradually such human frailties as we may have in the distribution of life insurance.

Mr. GESELL. Well, now, when was this bureau organized?

Mr. HOLCOMBE. January 1922.

Mr. GESELL. Have you been with it since that time?

Mr. HOLCOMBE. Yes, sir.

Mr. GESELL. Now, do I understand that you receive dues or contributions from your member companies and use that money in making studies of problems affecting the distribution of life insurance, and then take those studies and put them in forms of reports which are rendered to the member companies for their guidance?

Mr. HOLCOMBE. Yes, sir. You did say life insurance, and we do nothing except ordinary.

Mr. GESELL. Your studies are confined entirely to ordinary insurance?

Mr. HOLCOMBE. Yes, sir.

Mr. GESELL. How many companies did you say were members?

Mr. HOLCOMBE. Ninety-one in the United States, 15 in Canada, and we have an associate membership basis, without voting privileges and other privileges, that consists of about a dozen companies scattered over the rest of the world.

Mr. GESELL. Doesn't your membership include the principal companies in this country?

Mr. HOLCOMBE. Yes, sir.

Mr. GESELL. Principal legal reserve companies?

Mr. HOLCOMBE. Yes, sir.

Mr. GESELL. You referred to voting privileges. What proportion are they? Is that an organization?

Mr. HOLCOMBE. There never has been one.

Mr. GESELL. Do they outline, or do you outline the studies made by you? I mean by "you," the bureau.

Mr. HOLCOMBE. Well, we operate under a board of directors of 15 company officers, 12 in the United States and 3 from Canada; and that in turn has an executive committee consisting of 5 company officers, 1 from Canada and 4 from the United States. I suppose the answer to your question really is that it is out of the deliberations of that executive committee in conjunction with our staff that the subjects to be considered are finally chosen.

Mr. GESELL. Now the studies are prepared, I take it, from material submitted by the member companies?

Mr. HOLCOMBE. Yes, sir; with perhaps the possibility that we might study an entirely different line of business with a view to finding something that would benefit the life-insurance business, but that would be a very small activity.

Mr. GESELL. And you have at your disposal, then, figures which are in greater detail and perhaps more confidential than the figures which are available by and large through published reports of the members?

Mr. HOLCOMBE. Well, I don't believe that is quite true, is it, because—

Mr. GESELL. Let me ask it this way, then, because I think it is: Do you base your studies entirely upon the published reports of the company?

Mr. HOLCOMBE. Oh, no.

Mr. GESELL. Then you receive other information from them which is not published, do you not?

Mr. HOLCOMBE. Quite. The only difference between what you gave this morning and what we would give is that you have a much larger group of companies than what we would have.

Mr. GESELL. Now, what kind of a budget do you have? How much money do you spend on this research a year, approximately?

Mr. HOLCOMBE. Two hundred thousand.

Mr. GESELL. The reports that you render are confidential to the membership, are they?

Mr. HOLCOMBE. Some are confidential to the membership and some are available to nonmembers at a price per report.

Mr. GESELL. I was interested in your statement that you passed on the studies, the results of your research, to the consumer. If your reports are confidential, and assuming that the policyholder is the ultimate consumer here, he doesn't see those reports, does he?

Mr. HOLCOMBE. No; I think what I intended to say was, the advantages of the research went to the ultimate consumer.

Mr. GESELL. Provided the membership deemed it wise to follow the recommendations that you made.

Mr. HOLCOMBE. Quite, quite.

Mr. GESELL. You have no authority, I presume, in the bureau to force your recommendations into operation.

Mr. HOLCOMBE. No.

Mr. GESELL. You are simply advisory.

Mr. HOLCOMBE. Quite.

Mr. GESELL. Am I correct in saying that one of the subjects which has been of considerable interest to the bureau in the past has been the study of the subject of conservation of business, persistency of business, lapse ratios and rates, agency turn-over, acquisition costs—matters of that sort?

Mr. HOLCOMBE. Yes, sir.

Mr. GESELL. Will you give us a little idea of the type of studies you have made in that direction and what the results of your studies have indicated?

Mr. HOLCOMBE. Shall I go back and trace it a bit chronologically?

Mr. GESELL. Any way that you think best.

Mr. HOLCOMBE. When the bureau first started there was a considerable body of thought that lapses were largely to be considered as perhaps synonymous; that the lapse question was to be considered as synonymous with the reinstatement question. The material that you saw on some of these charts this morning used the word "revival," but that, for this purpose, is synonymous with reinstatement. When we first started the bureau, in 1922, we began realizing that there was a different way of looking at the lapse problem than the one which was properly called reinstatement, for reinstatement involves cure, and so almost immediately we began to turn our studies onto the question of prevention. In other words, the basic idea in that line of reasoning was, to prevent a lapse was more desirable than to let it lapse and then reinstate it; so with that beginning we then have proceeded through various channels—

Mr. GESELL (interposing). If I may interrupt just a moment, I don't want to cut your statement short at all, but the fact that you determined that it would be advisable to prevent lapses indicates that your studies had demonstrated that it was desirable to do so, and I wish

you would tell us as you proceed why it would be desirable to reduce lapses.

Mr. HOLCOMBE. Well, the companies, of course, were, as you suggested a little while ago, extremely anxious to reduce ordinary lapses for reasons that I think have perhaps already been brought out. They were extremely anxious to reduce lapses by their prevention wherever possible, and the things that have been done both by the bureau and by the companies themselves since 1922 are an evidence of the fact that today there is being done in the business a very considerable number of things which 10 years ago or 15 years ago were practically not being done at all.

Now, the bureau, I suppose, has had an influence in bringing that about in that we have shown various things that could be done. I don't know that we needed to drive home to the companies the desirability of cutting their lapse rate, for they are quite well aware of that already; and then, in addition to those various general studies that we made, we make a periodic study called the lapse survey, which you have in your files, and which I should discuss now or later.

Mr. GESELL. Those are some of the results of your lapse survey on the sheet that I have handed you?

Mr. HOLCOMBE. Yes, sir.

Mr. GESELL. I wish you would tell us on what basis those studies have been prepared; what they purport to show.

Mr. HOLCOMBE. Those studies were the result of an effort to find a basis of collecting lapse figures which the companies generally could contribute to and which also would attack the lapse problem at the point of its greatest importance, to wit, in the early years of the policy. Those figures on that memorandum which you have show the percentage of lapse of new ordinary business which fail to pay two full annual premiums; that is to say, the figures there indicate the business which at the rate we are going, at the particular time that report was published, will fail to pay two full annual premiums.

Mr. GESELL. You mean that from the material which you collected you found out what percentage of each company's business would lapse within the first 2 years after the policy was in force?

Mr. HOLCOMBE. Yes. I am not quite sure that is the technical way to phrase it, but it is the amount of business that will go off the books before the two full annual premiums have been paid, going at the rate we are going now.

Mr. GESELL. Am I correct in saying that you classified your companies by various groups in terms of size and location?

Mr. HOLCOMBE. Yes, sir; hardly by location. We classify all companies in four classes and that classification is used there.

Mr. GESELL. Your A, B, C, and D classifications.

Mr. HOLCOMBE. Yes, sir.

Mr. GESELL. They include in total about how many companies; your entire membership?

Mr. HOLCOMBE. No, no; I think the total on that memorandum is about 55.

Mr. GESELL. And your A companies, are they the largest companies, by and large?

Mr. HOLCOMBE. That contribute to this survey?

Mr. GESELL. Yes.

Mr. HOLCOMBE. No; hardly.

Mr. GESELL. What is the basis of the classification of the A and B companies?

Mr. HOLCOMBE. Oh, well, the A companies are the largest, but this particular study does not have the figures from all of the membership and there are quite a few of the larger companies that do not contribute to this, as I thought perhaps you were asking.

Mr. GESELL. On the basis of your survey, your A companies are the largest companies contributing to the survey?

Mr. HOLCOMBE. Yes.

Mr. GESELL. Your B companies are the next largest?

Mr. HOLCOMBE. Yes.

Mr. GESELL. Now, with these sheets before you, will you tell the committee in a general way what the results of your findings were with respect to various companies?

Mr. HOLCOMBE. The lapse rate as figured on this formula shows a variation between companies and a variation between sections of the country. We give this by States of the Union and the variation between the various sections of the country is noticeable in these figures. The variation, therefore, in these two sets of figures here are between individual companies and between sections of the United States.

Mr. GESELL. Referring to the last sheet on that memorandum, to begin with, am I correct in saying that for the total United States business of the companies reporting to this survey, you found that the lapse percentage for the 1930 series was 17 percent.

Mr. HOLCOMBE. Yes, sir.

Mr. GESELL. And that it grew as high as 22 percent for the whole country in 1933?

Mr. HOLCOMBE. Yes, sir.

Mr. GESELL. And that at the end of 1938 it was only 1 percent below what it was in 1930, namely, 16 percent?

Mr. HOLCOMBE. Yes, sir.

Mr. GESELL. And then, in breaking the lapse rate down as between various localities, which localities did you find to have the highest lapse experience?

Mr. HOLCOMBE. The highest in 1938 was the Mountain section, and the lowest was New England and Middle Atlantic.

Mr. GESELL. And generally speaking the Mountain States have been among the highest, have they not, and the New England States among the lowest in the point of view of experience?

Mr. HOLCOMBE. Yes, sir; for the high I should think it varied a little between the West South Central and the Mountain.

Mr. GESELL. Now, will you look at the other sheets which you have and tell us among your A companies which company had the highest and which company had the lowest rate for 1938?

Mr. HOLCOMBE. 1938, the highest lapse rate for the first 2 years, which is all this is, was the Lincoln National.

Mr. GESELL. What did it have?

Mr. HOLCOMBE. Thirty-seven.

Mr. GESELL. You mean that 37 percent of the policies written in the Lincoln National lapsed during the first 2 years?

Mr. HOLCOMBE. Yes.

Mr. GESELL. What is the lowest?

Mr. HOLCOMBE. The lowest for 1938 is the Northwestern Mutual and the Massachusetts Mutual, each with 9.

Mr. GESELL. So then, taking your B companies, will you again give us the highest and the lowest company experience?

Mr. HOLCOMBE. The highest was the Occidental of California with 50, and the lowest was the Manufacturers of Toronto—of course considering only their United States business—with 19.

Mr. GESELL. So that by and large the B companies, which are smaller than the A companies, had a worse experience, did they not?

Mr. HOLCOMBE. Yes, sir.

Mr. GESELL. Does that follow through for the C and D companies?

Mr. HOLCOMBE. Yes.

Mr. GESELL. What were your highest rates shown there?

Mr. HOLCOMBE. The highest was 48 percent, West Coast, and the lowest was 21 percent, National Guardian.

Mr. GESELL. I would like to offer these schedules, which Mr. Holcombe has identified, for the record.

Acting Chairman REECE. They may be received.

(The schedule referred to was marked "Exhibit No. 689" and is included in the appendix on p. 4741.)

Mr. FRANK. Mr. Gesell, does the word "lapse" used in this testimony have the same meaning at it had this morning, meaning termination without any surrender value or any return to the policyholder?

Mr. HOLCOMBE. Yes; with the rarest exception there might be a value in there, but we are using it in the sense that it is without value.

Mr. GESELL. You understand, do you not, Mr. Frank, that this afternoon we are relating the lapse to the period of time the policy has been in force, whereas this morning our figures were only bulk figures showing percentages of total.

Mr. HENDERSON. The material Dr. Holcombe is giving has to do with ordinary and not industrial?

Mr. GESELL. Yes.

Mr. HENDERSON. Is there any bureau that does analytic work similar to yours for the industrial?

Mr. HOLCOMBE. Not that I know of; no, sir.

Mr. GESELL. Now can you tell us just so we will have it for the record, Mr. Holcombe, what the formula is upon which this lapsed percentage or ratio has been determined?

Mr. HOLCOMBE. I don't know that I can do it in the accuracy that it is described on that survey. What it is basically is to take—well, in the last one, latest one we give it there; apparently it isn't here; yes, here it is. The formula; the rate is the total amount regarded as lapsed during the quarter, divided by one-eighth of total sales during a 24-month period, ending 2 months before the beginning of the quarter. It is an effort to relate lapses to the current sales.¹

Mr. GESELL. And that formula was developed after a great deal of thought and study, was it not?

Mr. HOLCOMBE. Yes; we had a committee of company officers who considered the matter, and this was their conclusion.

Mr. GESELL. And am I correct in saying that these lapsed survey figures which we have had summarized here for the record are figures which are distributed among the companies and relied upon and used by them?

¹ In this connection see later testimony of Dr. Donald H. Davenport, *infra*, pp. 4684-4686, see also "Exhibit Nos. 826 and 827," appendix, pp. 4926 and 4927.

Mr. HOLCOMBE. Yes; I think that is fairly true.

Mr. GESELL. Now, so much for the facts with respect to lapse experience in ordinary insurance. Can you tell us what you think the causes are, and what studies you have made to determine the causes?

Mr. HOLCOMBE. The causes of lapse are perhaps to be classified in two main classes: One is the market and the other is our method of reaching that market. Now, of course, we are undertaking—the life-insurance business is undertaking—to interest people in doing something which involves thrift. It is an undertaking to make people put aside money against a day in the future when that money will be needed.

Now, in that connection, of course, we know that we are dealing with a difficult element in human nature. We know that whether it is a very informal resolution that we make at New Year's, or whether it is an effort to carry out some policy looking to thrift for our own advantage in the future, we know that we are dealing with something that is difficult to handle. Other businesses that have certain points in common with the life-insurance business have a similar problem confronting them.

The record in other lines of business—in the savings banks—we understand that approximately one-third of the savings accounts are lost within 2 years, 33 percent as against 20 percent, the figure that we are discussing in these lapse rates here today.

Mr. GESELL. Just in passing, there is a tremendous difference. If a bank loses a savings account, the fellow who has the account gets his money back, and the fellow who lapses his policy doesn't get his money back, so it isn't quite the same thing.

Mr. HOLCOMBE. Quite. The only reason I cited that is because we are both interested in thrift. Now, taking up the point Mr. Gesell makes, namely, that in life insurance there is a distinction between that and savings banks, if we consider the matter of automobiles. In 1938, 8 percent of the automobiles which were sold on installments were taken away from the owner within the year, and in the case of used cars 19 percent of the automobiles were taken away from the prospective owners within that period.

Mr. GESELL. Again I just remark, Mr. Holcombe, that in automobiles the fellow pays for what he is getting, and on the level-premium insurance plan, as we demonstrated here this morning, a fellow doesn't get what he is paying for, does he?

Mr. HOLCOMBE. Well, that is a pretty broad statement.

Mr. HENDERSON. I think, Mr. Gesell, the automobile case is not to be likened to the savings banks. There is quite a loss on the repossession of automobiles, since it is possible in many States to serve the prospective buyer with the amount of the contract bill in full, less the resale value. There is a decided lossage there.

Mr. HOLCOMBE. Well, that is one element. In other words, we are dealing with the human frailty in this matter of carrying out a plan of purchasing an automobile or a plan of putting money in the savings banks.

Mr. HENDERSON. Do you have any record of what it is in the building-and-loan associations? Have you looked into that?

Mr. HOLCOMBE. Well, we don't have as accurate figures in that as we have in these other fields. One field which has—none of these are exactly like life insurance, of course, but they all apparently have some

relation to the problem that we are working on. Christmas clubs, as an example. We understand that the Christmas club procedure of putting in 25 cents each week for 50 weeks, before the year is out 60 percent of those plans have fallen. So that you asked in general the reason for these lapses. We certainly are dealing with the general field of human nature, which apparently runs through both life insurance and some other businesses.

Mr. GESELL. That is when you said that one of the factors in lapse was the market?

Mr. HOLCOMBE. Quite so.

Mr. GESELL. You did also say, I believe, that there were the methods used by the companies in selling insurance?

Mr. HOLCOMBE. Yes.

Mr. GESELL. Can you tell us a little about what the difficulties there are?

Mr. HOLCOMBE. Well, may I finish the market first?

Mr. GESELL. Certainly.

Mr. HOLCOMBE. The first point in the market is this matter of what I called human nature. Now there is another factor in the market, which is clearly of value in major importance, and that is change in circumstances of the insured. A very easy example of that type is the case where an insured takes out a policy, makes his wife the beneficiary, and in a short time they are divorced or she dies. A very large part of the reason for taking out that policy has disappeared, which I have called a change in circumstance.

Now there are all kinds of changes in circumstance that may occur to this policyholder. He may lose his job, something that no one could have foreseen. He may have some serious illness in his family and he may lose the person for whom the insurance was taken out, be that his wife or be that one of his children; so that there are a considerable number of examples where the change in circumstance of the insured is a factor in bringing about that lapse. Well, now, there are two main classifications which would fall under the main heading of the market. Now, of course, there are other factors which I described a moment ago as the manner in which we sell.

I don't mean the bureau sells the business; the manner in which the institution sells its policies. And there we have our imagination which can picture a considerable number of possible activities on the part of the company or the agency, but, in answer to your question, Mr. Gesell, what studies we have made. Such studies as we have been able to make—and they are not awfully easy to make, as you can imagine—indicate that the market element, the market factors appear to me to account for the very considerable majority, the very great majority, I think I would be safe in saying, of these lapses.

Such failure as there is on the part of our distributive system being the thing that the bureau has, of course, attacked with all the vigor we can but which we have to recognize, is a minor contribution out of the total causes.

Mr. GESELL. Let's find out what you meant when you said that there were things in the distribution system of insurance which had something to do with lapse. What are those causes?

Mr. HOLCOMBE. Oh, there must be examples of cases where an agent has unwisely acted in regard to a particular policyholder. There are examples—

Mr. GESELL (interposing). You mean by that high-pressure selling?

Mr. HOLCOMBE. Well, I was even making it broader than that. I was thinking to include high pressure selling in it, but I was even trying to cover the whole field and suggest that there are agents who misrepresent, either through ignorance or through intent, and some small element in there. I would suppose that a research man would have to tell you that those were possibilities.

Mr. GESELL. Then from the management point of view, what about the drive of the companies for volume? Hasn't that got a lot to do with it, Mr. Holcombe?

Mr. HOLCOMBE. Oh, without any question, and there you clearly are considering a social question. I assume that we could adopt the system that is in use not on this continent, but elsewhere, where they have no agents whatsoever. We could abandon the agency force, drastically cut down the amount of business sold, unquestionably drastically cut down the lapses, and so far as that distribution of it is concerned, it would have been a gain because of the drop in lapses. But we unquestionably would be tackling a social problem because we would have so very heavily cut the total protection which our United States system of distribution seems largely to have caused.

Mr. GESELL. I notice that in a publication of your agency entitled "Measuring agency profit" you say, "It is generally admitted today that volume is one of the false gods of our business." What do you mean by that, that there is too much emphasis upon volume, too much emphasis upon new business?

Mr. HOLCOMBE. When we call it a false god we are, of course, undertaking to talk to our companies somewhat in the way, if I am not presumptuous in saying this, a teacher talks to a class; namely, putting on a very vigorous statement for the desired end, and our studies, of course, indicate that we want to cut down these lapses all that we possibly can, and we recognize what I mentioned a moment ago, that we can cut down lapses by cutting down the volume of business, but just where is the optimum point is a difficult question to settle.

Mr. FRANK. Omitting, for the moment, the possible socially desirable consequences of large volume, what, from the company's point of view, is the incentive to obtain a large volume?

Mr. HOLCOMBE. Why, I suppose, Mr. Frank, that that is in itself the conviction on the part of these companies, that life-insurance protection is a good thing and that the more of a spread of that protection we achieve, the greater the value of the institution's service to the country.

Mr. FRANK. Omitting that factor of desire to aid the country generally, which you might ascribe to the industry as a whole, why does any one company which is of already great size desire to become larger and compete with another company in attaining largeness? In other words, if there are two companies, A and B, one might stop its pressure for increasing volume and leave that to the other, but as I see the picture—I may be in error—they are all actively engaged in attaining large volume. Now, why does a company which is already very large in volume want larger volume?

Mr. HOLCOMBE. I suppose that it is part of this philosophy of the institution of life insurance, then being reduced to one company, namely, that if the A company now has X amount of insurance in force

the accumulation of X plus 1 is carrying out the mission of life insurance.

Mr. FRANK. Do you really believe that there is no other interest than the general desire to benefit the country?

Mr. HOLCOMBE. Well, of course, there is not the interest for the profit element, because in life insurance that is practically nonexistent.

Mr. FRANK. Certainly so far as the mutual companies are concerned.

Mr. HOLCOMBE. It is practically so for all of them, because the non-participating companies have got to stay in line with mutual procedures so far as cost to policyholders goes, else they wouldn't write any business.

Mr. FRANK. Yes; but I can conceive that a stock company would be interested in making profits.

Mr. HOLCOMBE. Quite.

Mr. FRANK. Take the mutual company that cannot be interested in making profits, which profits will not go to any stockholders; take the two or three largest companies, if one of them would somewhat reduce its pressure for increasing size and the others were to keep it up, the country as a whole would be just about in as good condition, wouldn't it?

Mr. HOLCOMBE. Yes.

Mr. FRANK. So if we look at single companies, why is it that any particularly very large company wants to increase its volume?

Mr. HOLCOMBE. Well, I suppose it is the human desire to grow, isn't it?

Mr. FRANK. Yes. Now, if you were thinking of social values, do you think there is any inherent virtue in just getting bigger?

Mr. HOLCOMBE. Why, I don't—certainly the larger companies have done the particular question we have this afternoon with a good deal of success, and that is to hold down the termination rate. Well, now, is that a factor of size?

Mr. FRANK. I don't know, but I am restricting my inquiry to this specific question. If you take one of the gigantic companies, apparently it, in common with the other gigantic companies and the smaller ones, manifests a desire to grow. If it were to cease growing at the same rate and the others kept it up, the country would be just about as well off; and yet, as you indicate, there is this desire to grow, an end in itself, regardless of the social consequences. It seems to me, looking at it, that we have to recognize that is so, and perhaps somebody should look at the social consequences; but do you think there are any other motivations? I am asking out of ignorance, now. Is it possible that you have an institution that consists of agents who are themselves eager to increase their emoluments by increasing the amount of insurance that they bring?

Mr. HOLCOMBE. Oh, I shouldn't think we could deny that at all.

Mr. FRANK. It may be that their eagerness to increase their emoluments may or may not have socially desirable consequences.

Mr. HOLCOMBE. Yes; I think that is true; and I should think that the work that this bureau has been doing and all the emphasis that we have been throwing in our attempt to emphasize this lapse business was an indication of the fact that we now are attempting to make a greater net contribution than we did 10, 12, 15 years ago.

Mr. FRANK. If you found that the percentage of lapses were very, very much higher than the figures you have would indicate, would

that not be some sign to you that the growth was not a desirable growth?

Mr. HOLCOMBE. You mean——

Mr. FRANK. Let me explain what I have in mind. You directed your attention to lapses in ordinary life. Now the figures we had this morning showed an extraordinarily greater percentage in industrial insurance. Suppose that the lapses in the field which you have been surveying approach in percentage terms the quantity of lapses in the industrial field, wouldn't you feel that that was some index of something wrong?

Mr. HOLCOMBE. Well, we certainly would if they went from one to the other in a relatively short period. If we had entered this study as we did in 1922 and found that condition, it is very easy for me to agree with you; I am not quite sure what the standard would have been, however.

Mr. FRANK. An extraordinarily high percentage of lapses would indicate that growth was being attained without much regard to social desirability, would it not?

Mr. HOLCOMBE. Yes; I should think that was true.

Mr. FRANK. And that this anthropological phenomenon of desire for growth might be something that just happened, like Topsy; it was a habit like biting one's nails or something or other, that might not necessarily be socially useful and perhaps we might find there were other motivations other than the profit to the company as an entity that might be one of the factors.

Mr. HOLCOMBE. Yes; I suppose that is conceivable. Of course, the question of the optimum size or the question of the contribution to this social problem we are talking about, based on size of company, is a pretty large order. This afternoon the lapse figures of course show that the largest companies have very much the best lapse rate. Now you might well ask me what causes that, and I suppose I might say that there was something about the prestige of a large company that really caused people to hesitate to drop their business there, where in a very small company they might not.

Mr. FRANK. I wasn't speaking so much of size as we find it, but of the desire on the part of all of them, large and small, to get bigger and bigger.

Mr. HOLCOMBE. Yes.

Mr. FRANK. And I was wondering whether that desire in some instances, and particularly in the field of industrial insurance where the lapse rate is so high, was necessarily desirable and whether when you had that large lapse rate the eagerness to grow might not indicate that there was something that wasn't socially desirable, that if the eagerness to grow has concomitantly the consequence of very large lapse rate, one might question whether that eagerness to grow ought not to be curbed. Don't you think that might be true?

Mr. HOLCOMBE. Yes; I should think that might clearly be true; just where the dividing line is we don't know.

Mr. GESELL. Haven't you taken a very decided attitude on size? Let me read some of the things from your publications.¹

In life insurance, selling is but the first step in a much more complicated process. In the first place, if the true function of life insurance is to be car-

¹ *Measuring Agency Profit*, June 1935, p. 4.

ried out to the maximum benefit of policyholder, company, and agent alike, more must be done than to collect the first premium. If the policyholder is to receive protection, if the company and agent are to earn legitimate profits, business sold must remain in force for a reasonable period of years. Hence, nonpersistent business, while swelling the total of sales, cannot be justified from any point of view and is an economic waste.

Or again.

While much of the heavy lapse in recent years has been to a large degree unpreventable, it has been substantially less in those companies and agencies which have observed the essentials of good management and have looked for quality rather than quantity.

Or again.

For the last 6 years we have been selling about the same amount of business as we sold 15 years ago. It raises the question of whether we have achieved an approach to a stabilized market and, if so, what we shall do about it. * * * It begins to look as if the wise agency officer will lay his sights not on the old horizon of increasing sales at the rate of 10 percent a year, but on a much more stabilized situation. * * * But when the tide turns and life insurance is faced with a situation where sales are harder to make, our response is instinctive—we must find ways to secure more new business because it is the only road to success which we know * * * and unquestionably adopt methods which are unwise. We are “scraping the bottom of the barrel” and securing what we have recently come to call “marginal agents” or “marginal business,” the significance of which acquirement we are now beginning to see. * * * The “marginal agents” tribe increases. * * * Genuine agency success can be achieved without the yearly 10-percent increase in new business—

And so forth.

I am sure you can find a lot more in these publications. Now those indicate that your studies have shown that companies have placed too great an emphasis on volume, that the agency managers have been shooting for a 10-percent increase every year, that there has been not sufficient attention to persistency in conservation, and these last few quotations coming from something you said in 1938 would indicate to me that there has been no substantial change since 1929 in the selling tactics of the company.

Mr. HOLCOMBE. No; that assumption, if I may say so, is not correct, for I could recite to you a very long list of the motivating factors put into the distribution process by these companies designed solely to reduce lapses.

Mr. GESELL. But the figures we put in evidence showed in 1930 a lapse rate of 17 percent and in 1938 a lapse rate of 16 percent,¹ a very insubstantial reduction.

Mr. HOLCOMBE. Quite so, but we are dealing with something which I told you originally was a minor contributor, namely, the work of our distribution forces and as it is a minor contributor we must recognize that we are not going to get a major result by whatever we do in that field because we are operating on a very small factor of the total.

Mr. GESELL. We had figures here this morning, did we not, which showed that during the last 10 years in both the industrial and ordinary and industrial combined, there was much more business sold than in the previous 10 years,² and yet we all know certainly the market for insurance in the last 10 years was not as receptive to new business as the market during the previous 10 years.

¹ See “Exhibit No. 689,” appendix, p. 4741.

² See “Exhibits Nos. 684 and 685,” supra, pp. 4300 and 4304.

(Mr. Henderson assumed the chair.)

Mr. HOLCOMBE. Those two periods that you had, the second period started with '28, so of course, you had three very large life-insurance years in there; the sales since then of course having been materially less.

Mr. GESELL. Do you believe there has been any substantial reduction of emphasis upon volume?

Mr. HOLCOMBE. Yes, I do; I believe it in this way. As we have this annual meeting, the minutes of which you have there, to which come the agency officers of the United States and Canada, we can see in those reports a very marked increase in the amount of attention given to lapse and conservation now in comparison to 10 years ago. For example, I took occasion the other day to see if I could measure it in this way—I think this is in answer to your question—to find out how much change there is in the insurance press, and I found that in one of the insurance journals for 1928 there were 268 lines of information given out to their readers in 1928 on lapse and conservation; in 1938 there were 413. That is undoubtedly typical. Now, you say, as you did a moment ago, that we haven't achieved very much in result, and we haven't; I still would tell you that the emphasis that we see going through our office on persistency is very much greater now than it was 10 or 12 or 14 years ago. We haven't achieved a drop in the lapse rate that is noticeable, but of course there are at least two reasons for that, one of which I just mentioned, that we are attacking what apparently is a minor contributor, namely, the distribution process, and secondly, of course, we are operating in a period in our country's history when it is a question of where we would be if we hadn't put all this pressure onto lapses. Perhaps instead of having improved 1 percent, as I think those figures you have there indicated, if we had done no more than we were doing 10 years ago that lapse rate would have increased 5 or 10 or more percent.

Mr. GESELL. On the other hand, the figures which we have been discussing here do not contain, for example, do they, the experience of some of the largest of the companies, like the Metropolitan or the Prudential or the New York Life?

Mr. HOLCOMBE. That is right.

Mr. GESELL. We don't know whether there may not have been an increasingly adverse condition in the operation of those companies.

Mr. HOLCOMBE. No; from those figures you don't know what they did.

Mr. GESELL. I have no further questions.

Acting Chairman HENDERSON. I was interested, Dr. Holcombe, in this illustration you used of some other countries which have a sort of cafeteria basis for selling insurance. Have you any idea what their lapse rate is as compared with, say, your 20 A companies or your 13 B companies?

Mr. HOLCOMBE. No, sir; I don't think we have ever seen it. I have no idea.

Acting Chairman HENDERSON. You would imagine it would be a much lower rate; it certainly would be in this country if it were on that basis. Is that it?

Mr. HOLCOMBE. Oh, I think without a doubt.

Acting Chairman HENDERSON. You have here, I see, lapse rates of the A companies that run around 16 percent.

Mr. HOLCOMBE. I think that is the figure.

Acting Chairman HENDERSON. You have been letting these experiences and these rates run through your fingers for something like 17 years now, more than that; I would imagine you were doing something of this kind at Carnegie Tech, weren't you?

Mr. HOLCOMBE. Well, that is where we started; that is included.

Acting Chairman HENDERSON. '22.

Mr. HOLCOMBE. Yes. Of course we didn't collect any of these figures until 1926, I think—it was 1925.

Acting Chairman HENDERSON. Have you ever determined in your own mind what under proper conditions a lapse rate should be, one where you would meet the socially desirable demand and still would avoid all the ills that go with excessive lapse?

Mr. HOLCOMBE. The ideal at the moment, of course, is the lowest company record. Now, if we could get every company down to that lowest company record that would be the ideal.

Acting Chairman HENDERSON. I think in your discussion with Chairman Frank you indicated that practically all of these companies were in the general scramble for increase in size. Isn't that true?

Mr. HOLCOMBE. Well, they certainly vary, but they all want to grow. I think that is clearly true.

Acting Chairman HENDERSON. Suppose some company didn't go out with high-pressure selling as it had in the past. Have you any idea what its lapse rate would probably be cut to?

Mr. HOLCOMBE. I don't see how I could have.

Acting Chairman HENDERSON. That is what I am trying to get at, whether, in all this research you have done, upon which you certainly have ruminated, to say the least, you have established in your own mind any standards for what a normal lapse rate would be.

Mr. HOLCOMBE. No, sir; I don't think we have. I think we probably haven't gone beyond the desire to get every company's lapse rate reduced, but as for a reasonable figure or a desirable figure, I don't think we have gone that far.

Acting Chairman HENDERSON. This means that in the A companies 1 out of every 6, and in the 13 B companies about 1 out of every 3, and in the C and D companies about 2 out of every 5, lapse.

Mr. HOLCOMBE. Yes.

Acting Chairman HENDERSON. You would expect it to be something much less than that, wouldn't you, certainly less than 2 out of 5?

Mr. HOLCOMBE. You mean if I were just viewing this thing in general?

Acting Chairman HENDERSON. Yes; which you do, as I know, from things which you have written.

Mr. HOLCOMBE. Of course we want to get it down very much. I don't know that I can see any foundation for a standard. For instance, I don't know whether I would say that these Christmas clubs had a very high lapse rate or not until I compared it with life insurance, or these other comparisons. We wish the life insurance lapse would go down, and the companies in supporting this bureau have certainly given tangible evidence of their desire to bring it down.

Acting Chairman HENDERSON. Let me ask you in another way. You say you don't know what are the elements of a standard. It isn't necessary to have a 10-percent growth in an insurance company each year in order that it be sound, is it?

Mr. HOLCOMBE. To be solvent?

Acting Chairman HENDERSON. Sound or solvent.

Mr. HOLCOMBE. No.

Acting Chairman HENDERSON. Is it necessary for them to have a 1-percent increase?

Mr. HOLCOMBE. Well, there, of course, you are getting into the field of comparison between the rights of the present policyholders and the rights of the prospective policyholders.

Acting Chairman HENDERSON (interposing). But put it this way:

Mr. HOLCOMBE. And that is—

Acting Chairman HENDERSON (interposing). But put it this way: Could a company remain sound, or solvent, in your terms, if it didn't increase the number of policyholders it had?

Mr. HOLCOMBE. If it just wrote enough business to take care of the lapses and all terminations; rather, if it just wrote enough business to take care of all terminations, would it be a sound institution?

Acting Chairman HENDERSON. Yes.

Mr. HOLCOMBE. I should think it would be a sound institution.

Acting Chairman HENDERSON. Even if it didn't write enough to take care of all the terminations, it could be, couldn't it? Isn't that percentage of an insurance policy which is really savings enough to carry the obligations of the insurance company?

Mr. HOLCOMBE. Well, certainly the company could be sound if it was properly managed and didn't increase insurance in force, I should think.

Acting Chairman HENDERSON. And even if it had a decline and managed its affairs, its investments, with reasonable diligence, it could continue?

Mr. HOLCOMBE. Well, of course, I am not an actuary and I think you are getting pretty close to the actuarial field.

Acting Chairman HENDERSON. Dr. Holcombe, you know a little about the actuarial science.

Mr. HOLCOMBE. I don't know much about the actuarial business. I think that is pretty nearly an actuarial question.

Acting Chairman HENDERSON. You wouldn't guess that the policyholders in their current payments are paying enough to keep their insurance in force? What I am getting at is, is it necessary to have growth in order that life insurance companies remain sound?

Mr. HOLCOMBE. I don't suppose it is necessary because I suppose you have examples of companies with varying degrees of growth, all of which are perfectly sound. It is, as Mr. Frank said, the anthropological tendency to want to grow. It is the feeling of life insurance companies that the more protection is available in the country the better the country is.

Acting Chairman HENDERSON. That is an American as well as an anthropological idea, too, of course. But I am trying to get at whether in your mind, if you were approaching a standard—and evidently you have thought about a standard though you indicate you do not know the elements—whether you wouldn't look toward what constitutes soundness for policyholders. Wouldn't that be the test you would apply?

Mr. HOLCOMBE. Well, the soundness of policyholders, the particular thing we are talking about this afternoon, lapses; the larger companies have the soundest position on that score.

Acting Chairman HENDERSON. Do you attribute that to the growth rate?

Mr. HOLCOMBE. I suppose you have to; don't you?

Acting Chairman HENDERSON. How about some of your other companies? Don't you have some of the smaller companies with just as good experience records on lapses as the larger ones?

Mr. HOLCOMBE. Oh, no. The best C and D company there is a 21-percent, and there are more than half of the A companies that are less than 21.

Acting Chairman HENDERSON. I am saying, aren't there some of the smaller companies whose experience record is just as good?

Mr. HOLCOMBE. Not from those.

Acting Chairman HENDERSON. Sixteen percent here in Home and New York for the year 1938, for example.

Mr. HOLCOMBE. Well, that is just the average of the A companies, whereas half the A companies are lower than that.

Acting Chairman HENDERSON. That is right; it is lower; but don't some of the small companies approach the good record of the larger companies?

Mr. HOLCOMBE. Well, they approach it, but none of them are down to it.

Acting Chairman HENDERSON. None of them touch it?

Mr. HOLCOMBE. Oh, no. If I recall the figures correctly, your average there for 1938—I don't think the average is on the sheet Mr. Gesell handed me—is 16 for the A companies, whereas none of your B companies are as low as the A average.

Mr. FRANK. There is a B company that is as low as the A average, the Home of New York.

Mr. HOLCOMBE. Yes; just on the average, I guess.

Acting Chairman HENDERSON. That is what I said earlier.

Mr. GESELL. And again we don't know what the figures for the three largest companies in the country are, do we?

Mr. HOLCOMBE. No.

Mr. FRANK. Mr. Holcombe, may I ask you, if you found that lapses in the ordinary-life field went up to 70 percent, wouldn't you think that was some indication that there was some undesirability in the amount of insurance written?

Mr. HOLCOMBE. Clearly, if I had been educated to a 20.

Mr. FRANK. In any event, wouldn't 70 percent seem an extraordinarily large figure to you?

Mr. HOLCOMBE. Sixty percent seems to me high for these Christmas-savings funds.

Mr. FRANK. But what I am getting at is, When you are trying to appraise the value of growth and you find that there is 80 or 70 percent of lapses, doesn't that disturb you, that figure?

Mr. HOLCOMBE. Wouldn't it disturb me?

Mr. FRANK. Wouldn't it disturb you?

Mr. HOLCOMBE. Certainly it would disturb me, if I had any standard such as 20 percent to compare it with.

Mr. FRANK. Taking the standard for a moment, the ordinary life policy is the policy written by the moderately well-to-do person as compared with industrial insurance—industrial insurance being poor-man's insurance. Now, in the poor-man's-insurance field we found this morning that the percentage of lapses for the years 1918 to 1927 was

81—something over 81—percent; and for the years '28 to '37 it was 70.6 percent.¹

Mr. GESELL. May I make a correction, Mr. Frank? Those figures this morning were percentages of total terminations, whereas Mr. Holcombe's figures have some relation to exposure, length of time insurance has been in force, and they are not comparable.

Mr. FRANK. How would you make them comparable?

Mr. GESELL. It would be necessary to make new calculations. We can't make any comparison between the figures which are in the record at the present time.

Mr. FRANK. Are the figures, may I ask for information, as to industrial lapses not much larger than the figures if you were to use them on a comparable basis for ordinary life?

Mr. GESELL. I think you will find the industrial figures are larger but not on the basis of the comparison you have before you; and in some cases considerably larger.

Mr. HOLCOMBE. I was assuming, Mr. Frank, that you actually meant that our figure expanded from 20 to 70, which would be enormous, and would worry me if I had been educated to 20.

Mr. FRANK. No; I didn't mean that.

Just one more question: If we were looking solely to the welfare of existing policyholders, a great reduction in expansion would not affect them adversely, would it?

Mr. HOLCOMBE. In regard to the present policyholders?

Mr. FRANK. They would not be endangered by a reduction in the increase per annum.

Mr. HOLCOMBE. Well, I don't hardly believe that is true; is it?

Mr. FRANK. Why?

Mr. HOLCOMBE. They would begin to lose the advantage of the prestige of the company, which apparently is something of a factor, because the company would gradually dry up, as I understand it.

Mr. FRANK. I am not quite sure I follow that. I have a policy in the X company. Is it necessary for the protection of my investment in that policy that that company grow so much per year—increase the number of its policies?

Mr. HOLCOMBE. Why, yes; probably, because there is something about that factor of lapse that I have related to size, and if the company begins to drop in size, apparently they begin to lose business on this lapse formula that we have in a rather significant manner.

Mr. FRANK. Seriously enough so that I, an existing policyholder, would be injured?

Mr. HOLCOMBE. Of course, you couldn't be injured immediately, because the institution is too big; but it would be in that direction, I should think.

Mr. FRANK. You mean I would lose something in the loan or surrender value, or the ultimate payment to my estate, in event of death?

Mr. HOLCOMBE. Oh, no. I don't think you could lose that; but the most delicate thing would be dividends and, if you were beginning to throw factors in there that cut dividends you would feel it there.

Mr. GESELL. Are you clear in your own mind, Mr. Holcombe, that because the figures for the larger companies are slightly lower, that that is because the companies are large? Is it not rather that your

¹ See "Exhibit No. 685," appendix, p. 4738.

figure are higher for the smaller companies because they are growing faster, and doesn't the whole thing relate itself directly again to volume?

Mr. HOLCOMBE. I have not undertaken to say that volume is not in there, for I did suggest that you are really dealing with this social problem of whether you want to cut down your total spread and cut down your lapses.

Mr. GESELL. But your figures do not demonstrate that the larger the company the smaller the lapse rate, necessarily. The question relates itself rather to the amount of new business which is being written, does it not?

Mr. HOLCOMBE. To some extent; but if you had our insurance in force figures there, which perhaps you have, you would see that there are some companies that can write a proportion of new business considerably in advance of others, some of those large companies, and still have a good lapse rate.

Mr. GESELL. That is the quality of management in each case.

Mr. HOLCOMBE. Yes.

Mr. GESELL. But couldn't you argue from these figures just as well that volume—new sales—is one of the contributing factors to lapse?

Mr. HOLCOMBE. I should think that there was very little question of that.

Mr. GESELL. Then this whole question of growth and increase of size does have a direct bearing on lapse rate, which can't be excused simply by saying, "Well, look at the big companies; they have a smaller figure."

Mr. HOLCOMBE. Yes; and of course our bureau is an evidence of the desire to find the best condition dealing with both new business and lapses.

Acting Chairman HENDERSON. That is where I wanted to pick up again, Mr. Holcombe. When you find that a company in your group has a lapse rate of 40, 50, or 60 percent over a period of years, do you make any special inquiries as to the reasons why theirs departs so much from the average?

Mr. HOLCOMBE. Well, not a statistical study.

Acting Chairman HENDERSON. More of a qualitative study?

Mr. HOLCOMBE. Yes; more of an effort to help them. I think of one company that did have a higher lapse rate than many, and I think we perhaps have been of assistance to them in putting in certain factors. I know we have.

Acting Chairman HENDERSON. Well, what factors did you change?

Mr. HOLCOMBE. Their sales force had been motivated by sales, by so-called agency clubs, by attendance at company conventions, by all of that kind of motivating influence.

Acting Chairman HENDERSON. Special reward for meeting quotas and the like?

Mr. HOLCOMBE. Things like that. I was thinking really not monetary at the moment. I was thinking of more things in the way of honors.

Acting Chairman HENDERSON. Recognition, psychological promotions, and things like that?

Mr. HOLCOMBE. Now I think we have undoubtedly assisted that company in changing the emphasis over to persistent business in a way that has changed the picture there to some extent.

Acting Chairman HENDERSON. When you run into some of these companies, with this persistence of a high rate, do you pretty generally find that it is the kind of selling arrangement which is responsible, or is it the percentage of growth they are aiming at, or what is it?

Mr. HOLCOMBE. Well, in the first place, of course, it often seems to be related to the section of the country where they are operating. I don't think he got the figures.

Acting Chairman HENDERSON. I have the regional.

Mr. HOLCOMBE. In that regional figure we oftentimes find a company will be considerably influenced by that.

Acting Chairman HENDERSON. Will it run to double the average, as I notice some of them do here, particularly in the C and B company list?¹

Mr. HOLCOMBE. I am not sure how wide those geographical variations run, those figures you have there.

Acting Chairman HENDERSON. But you are familiar——

Mr. HOLCOMBE. This year they went from a low of 14 to a top of 21, which is just exactly 50 percent.

Acting Chairman HENDERSON. Getting back to this question of where you have a company which, over a period of time, has something which you plainly recognize, regardless of an exact standard, as a higher than average or a higher than standard lapse rate, do you find anything else that is really the cause of that extraordinarily high rate?

Mr. HOLCOMBE. Well, in this particular company that I am thinking of, they weren't doing any of those things that seemed to us to be possible, and they——

Acting Chairman HENDERSON (interposing). I don't quite get what you mean, "They weren't doing any of those things that seemed to us to be possible."

Mr. HOLCOMBE. Such as having the motivating influence on the agents partake more of the persistent factors than they did before; that is to say, company clubs for agents, company conventions, and the like. They put those things in, and it had an effect.

There is one company that you find there—the Lincoln National—whose rate you had me quote a few minutes ago. They have done one thing in the last few weeks, which was to put into their house organ a very elaborate analysis of their lapse situation, in an effort to show their general agents and their agents the desirability of reducing that lapse.

Acting Chairman HENDERSON. What did that run to, do you recall? What were the admonitions they gave in the article?

Mr. HOLCOMBE. In this particular case it was just to show the agent the desirability of writing business that stays on the books, and including in that his own monetary advantage because of the renewals he loses if the policy goes off the books.

Acting Chairman HENDERSON. Have you looked into more than one company with a high lapse rate, or is it just this one you are talking about?

Mr. HOLCOMBE. I suppose we are looking into them all the time in more or less degree, because our office is studying all these companies with a view to improving lapse rate.

¹ See "Exhibit No. 689," appendix, p. 4741.

Acting Chairman HENDERSON. I come back again to what are some of the things you feel they might do to reduce that?

Mr. HOLCOMBE. Well, they can, of course, give noticeable attention in their company publications to terminations in their education of their agents; through their published material they can emphasize terminations and persistency, just as we get out this material which we collect from all the companies.

(Representative Reece resumed the chair.)

They can give honors to the agents at the company convention and hold the man up to the honor by that basis. They can study the factors of persistency and attempt to train the agent to go to some part of the market that shows a better persistency record.

Mr. HENDERSON. What would be those factors of persistency?

Mr. HOLCOMBE. Well, there are a good many of those factors that we now know about. We know, for example, that young people lapse their policies more frequently than older people.

Mr. HENDERSON. So you can steer clear of young people and go toward the older group?

Mr. HOLCOMBE. If that is sound policy; it might not be a sound policy in the eyes of that company, but at least they know the fact which, until research dug it up, they often didn't know. They can direct the agent toward the writing of business with such characteristics as annual premium as against quarterly premium; they can direct the agent to secure settlement of the policy at the time he sells it, rather than to postpone it for 30 days or 60 days, with the likelihood that there will be a loss there.

Mr. HENDERSON. That is rather than any agent taking any kind of speculative risk there, to count only as business what he gets on the line?

Mr. HOLCOMBE. Yes, sir. There are a good many factors that we know about today that even 6 or 7 years ago hadn't been brought to the surface. Today we know a good deal about them.

Mr. HENDERSON. What are some of the others beside those?

Mr. HOLCOMBE. One of the other factors is that we are constantly trying to have agents sell to cover individual needs, rather than simply sell a policy of \$5,000 for no specified need, and the particular way that that evidences itself is that those policies, with an agreement in the policy for the payment of the proceeds to one or several beneficiaries under various contingencies, that kind of business shows a better termination than the kind of business where it is sold without that.

Mr. HENDERSON. More people interested in the continuation of the policy, then, would affect—how about the various kinds of industrial risks? Do you do anything on that?

Mr. HOLCOMBE. You mean industrial insurance?

Mr. HENDERSON. Well, no; the character of the employment of different people. Do you canalize them toward those as being better risks in having lower lapse rates?

Mr. HOLCOMBE. Yes, sir; we have some figures on that now which indicate something in that direction.

Mr. HENDERSON. So that it might be possible, then, going at these factors of persistency, to construct a standard; might it not?

Mr. HOLCOMBE. You mean to construct one in advance and direct your sales force toward that?

Mr. HENDERSON. Yes.

Mr. HOLCOMBE. Not only possible, but it is being done. We created such a procedure after our research and now that is being used by a very large number of the companies in the bureau.

Mr. HENDERSON. But your idea is, however, that the reason why it hasn't shown any better average results is that probably you have prevented the lapse rate from going higher?

Mr. HOLCOMBE. Yes, sir; plus the fact that we believe that we are dealing by concentrating on the distribution process, with the minor factor in the total causes of lapse. It looks as though the other elements were the major cause of the lapse and the agents' and the companies' contribution was minor.

Mr. HENDERSON. It is just the plain bedevilments of human nature?

Mr. HOLCOMBE. Well——

Mr. HENDERSON. How would you explain the range that runs all the way from your lowest to your highest, Mr. Holcombe, if there isn't something in what the company does? How would you explain why one group has a low rate and another has a high rate, on the basis of the average failings of human nature?

Mr. HOLCOMBE. Well, I am not trying to wash out the company's contribution entirely.

Mr. HENDERSON. No; but you are trying to minimize it when you say it is a minor factor, and yet we see this enormous range that they run.

Mr. HOLCOMBE. Well, I suggested that the geographical factor——

Mr. HENDERSON. It doesn't bear up as I read it.

Mr. HOLCOMBE. Well, you will find that those smaller companies, to a very considerable extent, operate in some of the territory where the lapses are higher. I think you will find that there is that tendency.

Mr. HENDERSON. Well, that isn't human nature, then. Human nature in the Pacific Northwest and West South Central is not different.

Mr. HOLCOMBE. Certainly not.

Mr. GESELL. Just to throw some light on the questions Mr. Henderson is asking, isn't it possible that your insurance market is saturated, that all the good risks have been taken, by and large, and you have a great bunch of agents out trying and trying to sell and all they can do is sell marginal business and poorer risks, and therefore can't keep your lapse rate down any lower, as you have said yourself in this publication which I read to you a minute ago?¹

Mr. HOLCOMBE. Of course, there are two viewpoints. One is that we are reaching something in the way of a stabilization factor, and the other is that we are nowhere near stabilization because we have only got so few hundreds of dollars of ordinary life insurance, or total insurance per capita in the United States. There are certainly two attitudes in regard to it.

Mr. GESELL. It is your opinion from a study of the situation, is it not, that the market has become saturated?

Mr. HOLCOMBE. Not saturated. I should say that we hadn't become persuaded that we had done more than approach saturation, but certainly we haven't reached saturation.

¹ Supra, p. 4327.

Mr. GESELL. Well, it is just a matter of degree is what you quarrel with me about.

Mr. HOLCOMBE. I don't mean to quarrel about it, but I think the connotation of saturation implies that we just can't expect to write more business, and I just don't hardly believe that is true.

Mr. GESELL. As you say, we can't return to the old 1929 standard, Mr. Holcombe. A good many companies are still operating on that basis. Don't you mean that the market has been sold to a much higher extent than it was before, that you can't keep busy the same number of agents working on the same basis day in and day out when you haven't got the people to sell the business to?

Mr. HOLCOMBE. Of course, the reduction in agents which has occurred seems to us to be sound, and no doubt that is going to continue.

Mr. HENDERSON. I noticed, Mr. Holcombe, in the list of things we were going through that no attention was paid to the commission arrangements which the agents have. Does that have anything to do with the rate of lapse? Do you find that in your special studies?

Mr. HOLCOMBE. Theoretically, of course, it would have a very large influence, but we have no research, no material on which we have been able to make any study that amounts to much to come out with a conclusion as to what ought to be done.

Mr. GESELL. Our next witness will have something to present to the committee on that question, Mr. Commissioner.

Mr. HENDERSON. I gather you said that in countries where life insurance is sold on a come-and-get-it basis, you have thought at times perhaps something like that ought to be approached in this country?

Mr. HOLCOMBE. No, sir; I don't. I think our job is not to give up the agency system, but is to make the agency system do a better job, which it can do and is doing, but as for giving up the agency system, it seems to me that we would immediately lose very much more than we would gain.

Mr. HENDERSON. The social advantage is greater by having this extra amount written even though you lose 1 to 5?

Mr. HOLCOMBE. I don't think there is any question of that, Mr. Henderson, because although I don't have the figures in my head, I think that is beyond question, that if we were to abandon our agency distribution system we would be a minus in the net that we would accomplish.

Mr. HENDERSON. That is, the amount of insurance which could be bought, with the lapsed insurance wouldn't offset what is written for the individuals who stay in.

Mr. HOLCOMBE. I don't think that is—

Mr. HENDERSON (interposing). Although the cost would be considerably less.

Mr. HOLCOMBE. Oh, yes; but the net loss to society would be sizable.

Mr. HENDERSON. I just wanted to wind that up and put a little blue band around it.

Mr. GESELL. If the committee please, I have no further questions for Mr. Holcombe. We have another witness that we could put on today and by doing so I believe we can run only a half-day session tomorrow, if that would be preferable to discontinuing now and running a whole day tomorrow. Is that agreeable?

Acting Chairman REECE. Suppose you call your next witness.

Mr. GESELL. Our next witness is Mr. Montgomery.

Acting Chairman REECE. Do you solemnly swear that the testimony you are about to give in this procedure shall be the truth, the whole truth, and nothing but the truth so help you God?

Mr. MONTGOMERY. I do.

**TESTIMONY OF WILLIAM MONTGOMERY, PRESIDENT, ACACIA
MUTUAL LIFE INSURANCE CO., WASHINGTON, D. C.**

Mr. GESELL. Will you state your full name to the reporter?

Mr. MONTGOMERY. William Montgomery.

Mr. GESELL. What is your position?

Mr. MONTGOMERY. President, Acacia Mutual Life Insurance Co.

Mr. GESELL. That is right here in Washington, is it not?

Mr. MONTGOMERY. Yes, sir.

Mr. GESELL. How long have you been associated with that company?

Mr. MONTGOMERY. Forty-five years last December.

Mr. GESELL. How long have you been president?

Mr. MONTGOMERY. Nineteen years.

Mr. GESELL. You have heard the testimony that has been before the committee this morning, have you not?

Mr. MONTGOMERY. Yes, sir.

Mr. GESELL. Can you tell us a little about your company in the way it has operated and what you have done to cut down your lapse experience and what you consider the factors to be which contribute to high rates of voluntary terminations?

Mr. MONTGOMERY. You ask me what we have done or what I think; which do you want?

Mr. GESELL. Will you first tell us what you have done and then tell us what you think?

Mr. MONTGOMERY. Well, we have tried to sell quality business. By quality business I mean business that will stay on the books as long as the policy is sold for and we base our agency contract on that assumption. We don't pay the usual renewal commission that is paid by other companies. We pay the usual commission that all companies pay for first-year business, and then we pay the agents in proportion to the business that they service and keep in force.

Mr. GESELL. You have found by adopting that method of compensation you have been able to keep on your books a more consistent type of business?

Mr. MONTGOMERY. Yes; and more persistent agents.

Mr. GESELL. And can you tell us what you consider to be some of the factors causing voluntary terminations, and what the relative importance of those factors is?

Mr. MONTGOMERY. Well, there is a saying in life insurance that the lapse begins with the sale. You know what I mean by that.

Mr. GESELL. I have heard the expression. You tell us what is meant by that.

Mr. MONTGOMERY. The way life insurance is marketed is conducive to lapse.

Mr. GESELL. Will you explain that more in detail?

Mr. MONTGOMERY. Well, life insurance is not sold as the ordinary product, if I can use that expression, is sold. The mutual companies sell life insurance under a system of estimated dividends. Now, we

know that estimated dividends, or rather dividend estimates, don't always mature. We know that when men are given an estimate of dividends, to use in a sale the agent isn't always as careful as he might be in the figures he makes, and where there is high pressure of that kind in the sale of life insurance we feel that contributes very materially to lapses.

Mr. GESELL. You mean that the general practice of many companies in giving to their agents dividend schedules and illustrations which are a way of anticipating what will be paid back to the policyholder from mortality savings and otherwise, leads to the agent building up in the mind of the prospective policyholder too many advantages for insurance which don't really exist.

Mr. MONTGOMERY. Well, not only advantages but the matter of costs.

Mr. GESELL. Will you explain what you mean when you mention costs?

Mr. MONTGOMERY. Well, if the dividends are not as large as the estimates, then the cost has been increased.

Mr. GESELL. And you feel that frequently the policyholder finds himself paying more for his insurance than he had reason to believe at the time the agent sold it to him, he would have to pay?

Mr. MONTGOMERY. That is my opinion.

Mr. GESELL. What other factors do you believe contribute to lapse?

Mr. MONTGOMERY. Well, high-pressure salesmanship.

Mr. GESELL. What do you mean by high-pressure salesmanship?

Mr. MONTGOMERY. Pushing agents too hard to get a volume of business that will make the company good window dressing.

Mr. GESELL. Do you mean that you feel that from your experience in the business many company managements put too much emphasis upon volume?

Mr. MONTGOMERY. Well, if you will notice all the ads at the end of the year or at any other time, every company advertises, how much it has paid for instead of how much it has gained. We believe that a company should emphasize what it keeps and not what it pays for.

Mr. GESELL. You think there has been too much emphasis upon what it writes.

Mr. MONTGOMERY. I think there has been too much emphasis on size.

Mr. GESELL. Now, about this matter of size; yours is a mutual company is it not?

Mr. MONTGOMERY. Yes, sir.

Mr. GESELL. Do you feel there is any advantage in your increasing your size?

Mr. MONTGOMERY. No, sir; no special advantage.

Mr. GESELL. What do you consider some of the disadvantages in increasing your size?

Mr. MONTGOMERY. I don't know that there are any great disadvantages so far as the company is concerned.

Mr. GESELL. What about the policyholder?

Mr. MONTGOMERY. Well, if size doesn't reduce cost or size doesn't improve service or size doesn't give added strength, then of course there is no particular advantage in size.

Mr. GESELL. Your feeling would be that in some companies at least that have been for volume and size, as to point of view of service

and point of view of distribution of risk and point of view of distribution of investment, they have already reached a size adequate for the full protection and servicing of their policyholders' interests?

Mr. MONTGOMERY. I don't know that I could say that, sir, but I feel this. I can't quite agree with Mr. Holcombe in the matter of size. I feel that if there is any difference in lapsation in one of the A or B companies compared with another, and that is in favor of the larger company, I think it will be found not in the efficiency of the management, it will be found in the competition in the field; it will be found by the agent of the large company telling the policyholder of the smaller company that "We can do better for you; look at our size," and so forth.

Mr. GESELL. And be able to get a better quality of business as a result?

Mr. MONTGOMERY. Yes, sir.

Mr. GESELL. So far we have mentioned high-pressure selling, as you called it, dividend estimates. What about overselling? Do you think that that is another factor contributing to lapse?

By overselling, I mean agents attempting to load a policyholder with more than he can carry or more than is needed to meet his particular insurance program?

Mr. MONTGOMERY. Isn't that, after all, what you would call high-pressure salesmanship?

Mr. GESELL. Well, perhaps, although I related high-pressure salesmanship more to questions of misrepresentation, and the type of thing that you see in the funny papers when the salesman holds the man's pen to the paper.

Do you think lapse has any relation to the quality of agents?

Mr. MONTGOMERY. Yes; to an extent.

Mr. GESELL. Do you believe that a heavy turnover of agents, inadequate training of agents, the employment of too many agents, are all factors which may lead to a high lapse rate?

Mr. MONTGOMERY. Unquestionably.

If an agent isn't trained, if he doesn't understand what he is selling, is picked off the street, given a rate book; and told to go out and sell life insurance, how can he intelligently sell any man a policy?

Mr. GESELL. Is it your experience in the business, Mr. Montgomery, that frequently that is what is done?

Mr. MONTGOMERY. It seems so, sir.

Mr. GESELL. Would you feel managements which do engage in that practice are perhaps motivated by the desire for volume in getting business on the books at any cost without regard to the training of their personnel in connection therewith?

Mr. MONTGOMERY. Well, if that isn't their motive, why should they do it?

Mr. GESELL. So much for the causes. On this question of who gains and who loses from lapses, what is your opinion on that score, and we might include other forms of voluntary terminations?

Mr. MONTGOMERY. Well, we have a saying that every man loses on a lapse—the company loses, the policyholder loses, the agent only gets a part of what he earns because he only gets his commission and doesn't get his renewal.

Mr. GESELL. The agent just gets his first commission, and doesn't get the commission he would get from renewals?

(Mr. Montgomery nodded his head in the affirmative.)

Mr. GESELL. The policyholder loses, because he has paid for something he doesn't get.

Mr. MONTGOMERY. Yes, sir.

Mr. GESELL. The company loses for what reasons, the expense in putting the business on the books?

Mr. MONTGOMERY. Because it costs far more than they can get back from it.

Mr. GESELL. Then you would feel that it is a serious economic waste.

Mr. MONTGOMERY. I would say yes in one way, no in another.

Mr. GESELL. Well, you explain yourself any way.

Mr. MONTGOMERY. I think that the lapses that occur in the first 2 years are a very definite economic waste because a man gets back nothing at all for what he has put in, except, of course, in term insurance. Now, if a man gets to a point where he can get a surrender value of whatever kind it may be, then, of course, the loss is not so large.

Mr. GESELL. So that if you define lapse as the termination of the policy where the policyholder gets nothing back, then you say that all lapse is an economic waste.

Mr. MONTGOMERY. Well, there is no profit by it, so it must be a waste.

Mr. GESELL. How much does it cost to put a policy on the books in your company, for example, Mr. Montgomery?

Mr. MONTGOMERY. You mean the commissions or the home-office expense?

Mr. GESELL. The whole works.

Mr. MONTGOMERY. Well, it costs more than the first annual premium.

Mr. GESELL. In other words, you take in money from a policyholder on his first premium, and by the time you have set up a reserve which is required under the law you find yourself dipping into your surplus in order to have accomplished that particular acquisition?

Mr. MONTGOMERY. That is right.

Mr. GESELL. And do you feel that all of that money is returned to the company by the recapturing of the policyholder's reserve if his policy lapses?

Mr. MONTGOMERY. The company would recapture the reserve that has been charged against the policy for the first 2 years?

Mr. GESELL. Yes.

Mr. MONTGOMERY. Well, that would go into, of course, the general funds of the business.

Mr. GESELL. And do you feel that your gains from lapses and surrenders are sufficient to compensate you for the amount of money which you had to expend to get that type of business on your books?

Mr. MONTGOMERY. I could only say that the surplus increases, and the dividends have increased, so that I guess that goes back to the policyholders.

Mr. GESELL. Well, then, do you feel that if that is true, then your company is not losing money by its lapsed policies?

Mr. MONTGOMERY. No, sir.

Mr. GESELL. You are breaking even?

Mr. MONTGOMERY. No, sir.

Mr. GESELL. You are losing money?

Mr. MONTGOMERY. Yes, sir.

Mr. GESELL. Then I gather that you do not feel that by returning some of the policyholder's reserve to the surplus you make up for the amount of money that it has cost you to get the business?

Mr. MONTGOMERY. I think not.

Mr. GESELL. Now, what about this question of the gross premium in a mutual company? Do you feel the fact that most mutual companies have adopted the policy of charging more than they anticipate will be required with a view to returning some of that sum in dividend, leads to a higher lapse rate?

Mr. MONTGOMERY. Yes; and a wee bit more.

Mr. GESELL. Now, will you explain what you mean?

Mr. MONTGOMERY. Because you can never return to the policyholder in its entirety the additional amount you have collected because the agent gets his commission, the Government steps in and gets taxes; it costs a good deal of money to adjust these, to arrange these dividends and distribute them again. Then how can you pay back to the policyholder the overcharge?

Mr. GESELL. And your company has adopted the policy, has it not, of reducing the amount of its gross premiums somewhat considerably below the standard gross premiums of other comparable mutual companies with a view to eliminating that amount of the waste which would occur if the policies written lapsed?

Mr. MONTGOMERY. We reduced our premiums in 1925 to about the same amount as the stock companies charged, that is the nonparticipating companies, charged.

Mr. GESELL. In other words, instead of taking the money away from the policyholder and giving it back to him again, you decide to leave it with him in the first place?

Mr. MONTGOMERY. Well—

Mr. GESELL. That is the net result of it, isn't it?

Mr. MONTGOMERY. Well, isn't that common sense?

Mr. GESELL. And the charging of large gross premiums then you feel does not only increase the lapse rate but results in increasing the amount of waste involved when policies lapse?

Mr. MONTGOMERY. Yes; and it contributes to the lapse.

Mr. GESELL. I have no further questions of this witness.

Mr. HENDERSON. I have none.

Acting Chairman REECE. Any further questions? You may be excused, then, Mr. Montgomery. Thank you very kindly for your appearance.

Mr. GESELL. I have no further witnesses today. We can meet either in the morning or the afternoon to meet the committee's pleasure. The witnesses have been subpoenaed for the morning.

Acting Chairman REECE. The committee will stand in recess until tomorrow morning at 10:30.

(Whereupon, at 4:25 p. m., a recess was taken until 10:30 a. m. Tuesday morning, June 13.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

TUESDAY, JUNE 13, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:50 a. m., pursuant to adjournment on Monday, June 12, 1939, in the caucus room, Senate Office Building, Mr. Leon Henderson presiding.

Present: Messrs. Henderson (acting chairman), O'Connell, Lubin, and Brackett.

Present also: Messrs. Willard L. Thorp, Department of Commerce; Willis J. Ballinger, Federal Trade Commission; Joseph Borkin, Department of Justice; and Gerhard A. Gesell, special counsel, Securities and Exchange Commission.

Acting Chairman HENDERSON. Will you call your first witness, Mr. Gesell?

LOBBYING AND LEGISLATIVE ACTIVITIES—ASSOCIATION OF LIFE INSURANCE PRESIDENTS

Mr. GESELL. The first witness this morning is Mr. Vincent Whitsitt. This morning the testimony will relate to the activities of the Association of Life Insurance Presidents. Mr. Vincent Whitsitt, manager and counsel of the association, will be the first witness. His testimony will be confined to a consideration of the general organization of the association, the purposes for which it was created, its membership, and present objectives.

Tomorrow additional witnesses will be called for purposes of developing the activities of the association in more detail, with particular reference to the association's legislative work and the participation of member companies therein.

Has Mr. Whitsitt been sworn?

TESTIMONY OF VINCENT P. WHITSITT, MANAGER AND GENERAL COUNSEL, THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS, NEW YORK CITY

Acting Chairman HENDERSON. Do you promise to tell the truth and nothing but the truth in these proceedings, Mr. Whitsitt?

Mr. WHITSITT. I do.

Mr. GESELL. Will you state your full name for the reporter, please, sir?

Mr. WHITSITT. My name is Vincent P. Whitsitt.

Mr. GESELL. You are connected with the Association of Life Insurance Presidents, are you not?

Mr. WHITSITT. Yes, sir.

Mr. GESELL. In what capacity?

Mr. WHITSITT. I am the manager and general counsel and chairman ex officio of the executive committee.

Mr. GESELL. How long have you been with the association, Mr. Whitsitt?

Mr. WHITSITT. Nineteen years.

Mr. GESELL. Have you always been manager and general counsel?

Mr. WHITSITT. No, sir. I started as a law clerk in 1920; I have been manager since January 1, 1934. I was acting manager for the year 1933.

Mr. GESELL. The association has offices in New York City, has it not?

Mr. WHITSITT. That is right.

Mr. GESELL. And your offices are there, I take it?

Mr. WHITSITT. That is right.

Mr. GESELL. Well now, will you tell us what the Association of Life Insurance Presidents is?

Mr. WHITSITT. The association was founded in 1906, shortly after the Armstrong investigation. If you recall, the Armstrong report made some criticism of the methods that the life insurance companies had prior thereto used in handling their legislation. It will also be recalled that following the Armstrong investigation the Equitable Life Assurance Society was reorganized; as a member of the committee, of that reorganization committee, was Grover Cleveland. Mr. Grover Cleveland induced Mr. Paul Morton to become president of the Equitable Life Assurance Society. Mr. Morton had been in Mr. Theodore Roosevelt's Cabinet. Some months later Mr. Paul Morton conceived the idea of some association, one of whose objectives was to take care of the legislative matters which were flooding the country in the various legislatures to handle this legislation in a manner quite different from that which had been criticized by the Armstrong investigation. They induced Mr. Grover Cleveland to become the first manager and general counsel. Mr. Cleveland laid down the guiding principles of the association's activities, which have been followed ever since.

In connection with legislation, we receive and examine thousands of bills and examine them from the standpoint of their effect upon life-insurance policyholders.

Mr. GESELL. We will come to that phase of it. To develop your testimony a little more with respect to the original organization of the association, do you recognize this document which I show you as the minutes of the first meeting of the association?

Mr. WHITSITT. Yes, sir.

Mr. GESELL. I would like to offer these minutes for the record.

Acting Chairman HENDERSON. They may be admitted.

(The minutes referred to were marked "Exhibit No. 690," and are included in the appendix on p. 4744.)

Mr. GESELL. I wish to read a portion of these minutes for the record [reading from "Exhibit No. 690"]:

The first meeting of the proposed "Association of Life Insurance Presidents" of the United States was held at the Waldorf-Astoria in New York City on Fri-

day, December 21, 1906, in response to the letter sent out by President Morton, of the Equitable Life Assurance Society, on December 3, 1906.

There are then listed the names of the companies present, their location, and their representatives. The minutes go on to state:

The chairman stated that the object of the meeting was clearly set forth in his communication of December 3 addressed to the presidents of the principal life-insurance companies throughout the country, the said objects being:

First. To promote the welfare of policyholders.

Second. To advance the interests of life-insurance companies in the United States by the intelligent cooperation of officers in charge.

Third. To prevent extravagance and reduce expenses by encouraging uniformity of practice among life-insurance companies in matters of general administration.

Fourth. To consider carefully measures that may be introduced from time to time in legislative bodies, with a view to ascertaining and publicly presenting the grounds which may exist for opposing or advocating the proposed legislation, according as the welfare of the companies and their policyholders shall point to the one course or the other.

Fifth. To consider anything that may be suitably a matter of general concern to the life-insurance business.

Now, those five principles which I have just read, Mr. Whitsitt, were embodied in the constitution of the association, were they not, and they are the five principles to which you refer in your testimony when you say that the general objectives of the association have always been the same?

MR. WHITSITT. Those, together with various informal expressions which Mr. Cleveland and other managers at various times made to the executive committee.

MR. GESELL. Those are the principal guiding objectives of the association?

MR. WHITSITT. Yes.

MR. GESELL. Now, before proceeding to the activities of the association, can you tell us a little more about its organization; first of all, who is eligible to belong to the association?

MR. WHITSITT. According to our constitution, any legal reserve life insurance company—the term used is “regular life insurance company”—of the United States or Canada.¹ We have also a rule that no company is eligible until it has conducted a legal reserve business for at least 10 years.

MR. GESELL. Now, does the company join the association or does one of its officers, or some of its officers, join?

MR. WHITSITT. Perhaps that is a little technicality. We are an association of life insurance presidents, and the president makes the application. As a practical matter, of course, it is the company.

MR. GESELL. Am I correct in saying that as far as the meetings of the association are concerned only the presidents and vice presidents of the member companies can attend?

MR. WHITSITT. That is usually correct. The president may attend himself, as they frequently do, or he may send one of the vice presidents, or he may send another officer who does not happen to have the rank of vice president, such as general counsel or secretary.

MR. GESELL. Do I understand that both American and Canadian companies are eligible to membership?

MR. WHITSITT. That is right.

MR. GESELL. As manager, I take it you are the person actively in charge of the office from day to day.

¹ See “Exhibit No. 692.” appendix, p. 4748.

Mr. WHITSITT. I am in charge of the administration of the office; that is right.

Mr. GESELL. How many employees does the association have?

Mr. WHITSITT. Somewhere slightly over 60.

Mr. GESELL. Are they all located in New York City?

Mr. WHITSITT. That is right.

Mr. GESELL. Do you determine the policy of the association from time to time, or is it determined by some committee or vote, or how is it determined?

Mr. WHITSITT. Our executive committee determines the policy of the association.

Mr. GESELL. How often does the executive committee meet?

Mr. WHITSITT. Ordinarily it meets every other month, from November to May. Frequently we have special meetings on special occasions.

Mr. GESELL. What type of thing would prompt the calling of a special meeting of the executive committee?

Mr. WHITSITT. Some question of policy might come up that needed determination, and we would call a meeting of the executive committee.

Mr. GESELL. Do you recognize this list which I show you as the list containing the members of the association and their dues and contributions during the last 5 years?

Mr. WHITSITT. That seems correct. Yes; here is our identifying number. That is correct. Perhaps one of those companies is not a member at the moment.

Mr. GESELL. How much of the legal reserve business of the United States is represented by your membership?

Mr. WHITSITT. I could only give you an approximation; I think it is about 85 percent.

Mr. GESELL. Do the member companies pay dues?

Mr. WHITSITT. There are annual dues of \$100 per year, but the bulk of the contributions are distributed among the companies by what we call "calls" for contributions. Usually there are four each year.

Mr. GESELL. What is the basis upon which those calls are made?

Mr. WHITSITT. They are based one-half upon first year premiums of ordinary business and one-half upon assets.

Mr. GESELL. But what is it that prompts your asking for the money? Your budgetary requirements?

Mr. WHITSITT. That is right. We make up a budget in November or early December each year, approximating what we anticipate we will spend the next year, and then calculate roughly about the amount and the rates of these calls, and then at the annual meeting in December the authority is given for those calls, and those calls are then, in turn, passed on to member companies.

Mr. GESELL. And the companies contribute on the basis of size and premium income.

Mr. WHITSITT. That is, first year premium income; that is right.

Mr. GESELL. This schedule shows the fees, dues, and contributions received from the member companies for the years 1935 to 1938, does it not?

Mr. WHITSITT. That is right—I am not sure. Does it say "dues"? Yes.

Mr. GESELL. That shows that you received in 1934 a total of \$332,694.16; in 1935, \$442,896.15; in 1936, \$365,211.29; 1937, \$495,086.85; 1938, \$435,375.96.

I wish to offer this schedule for the record.

Acting Chairman HENDERSON. It may be received.

(The schedule referred to was marked "Exhibit No. 691" and is included in the appendix on p. 4746.)

Mr. GESELL. That money, Mr. Whitsitt, represents your operating funds, does it not, and with those funds you operate?

Mr. WHITSITT. That is right.

Mr. GESELL. In view of the system which—

Mr. WHITSITT (interposing). The disbursements may not equal the contributions because there might be a small balance at the end of the year.

Mr. GESELL. But in view of the nature of your system of calling for contributions, your receipts pretty well equal your disbursements from year to year, do they not?

Mr. WHITSITT. Oh, definitely.

Mr. GESELL. In order that the record may be complete, do you recognize this as the present constitution of the association?

Mr. WHITSITT. Yes, sir.

Mr. GESELL. Reading from article VI of the constitution, it states [reading from "Exhibit No. 692"]:

The manager shall have sole charge and management of the affairs of the association subject to such direction and control as may be exercised by the executive committee or by the association.

He shall receive and carefully keep all the moneys belonging to the association and disburse the same as may be directed by the association from time to time, or by the executive committee.

He shall notify the members of the association of all meetings. In the case of special meetings, the business for which the special meeting is called shall be stated in the notice.

He shall take and keep a record of all proceedings of each meeting and conduct the correspondence of the association.

He shall employ such assistants as in his judgment may be necessary and the association or the executive committee may approve.

That article sets forth then, does it not, your duties?

Mr. WHITSITT. Yes, sir.

Mr. GESELL. I wish to offer the constitution for the record.

Acting Chairman HENDERSON. It may be received.

(The constitution referred to was marked "Exhibit No. 692" and is included in the appendix on p. 4748.)

Mr. GESELL. You mentioned the executive committee. That, I take it, is the working committee of the association which makes most of its policy decisions.

Mr. WHITSITT. I wouldn't say "most." According to the constitution, the decision of the executive committee governs the policy between association meetings.

Mr. GESELL. Who are the members of the executive committee at the present time?

Mr. WHITSITT. I haven't a list here. I think you have a list right with you. I can name them. There are 11 members.

(Mr. Gesell submitted a list to Mr. Whitsitt.)

Mr. WHITSITT. Mr. Alfred L. Aiken, president of the New York Life; Mr. Elbert S. Brigham, president of the National Life of

Vermont; Mr. W. Howard Cox, president of the Union Central Life Insurance Co. The name given here is Duffield; Mr. Franklin D'Olier, president of the Prudential Insurance Co. of America; Mr. John R. Hardin, president of the Mutual Benefit Life Insurance Co.; Mr. David Houston, president of the Mutual Life Insurance Co. of New York; Mr. Leroy A. Lincoln, president of the Metropolitan Life Insurance Co. Mr. Nollen has resigned; there is one vacancy. Mr. Thomas I. Parkinson, president of the Equitable Life Assurance Society; Mr. George Willard Smith, president of the New England Mutual; Mr. L. Edmund Zacher, president of the Travelers Insurance Co.

Mr. GESELL. Those appear to be, by and large, the larger eastern companies which are represented on this executive committee.

Mr. WHITSITT. Well, there are some exceptions to that. The National of Vermont I wouldn't say was such a large company and Mr. Cox lives in Cincinnati and Mr. Nollen who was representative of the West; although he has resigned, he did represent the Middle West.

Mr. GESELL. The majority of your committee are officers of the larger eastern companies.

Mr. WHITSITT. Well, that depends upon where you draw the line of "large."

Mr. GESELL. Let's call them big. Does that help?

Mr. WHITSITT. Well, how big is big?

I would say this, the New York Life, the Prudential, the Mutual Life, the Metropolitan, and the Equitable are members of the executive committee; also the New England Mutual, the Travelers, and the Mutual Benefit and the National Life of Vermont.

Mr. GESELL. How do these members vote? Does each vote?

Mr. WHITSITT. Each has a vote.

Mr. GESELL. Each one has one vote?

Mr. WHITSITT. That is right.

Mr. GESELL. In the association as a whole, does each member have one vote?

Mr. WHITSITT. That is right.

Mr. GESELL. No member has any preference by reason of its size in the voting of the organization.

Mr. WHITSITT. No; not at all.

Mr. GESELL. We have mentioned the executive committee. What other committees are there of this association?

Mr. WHITSITT. Oh well, there are numerous committees.

Mr. GESELL. Can you name some of the more important committees and tell us a little what they do? You have a committee, have you not, on informing the public on life insurance?

Mr. WHITSITT. We did have; that committee has completed its duties and been discharged.

Mr. GESELL. That was a committee, was it not, which made a survey to determine what the attitude of the people was concerning life insurance and what could be done, if there was anything which would be done, to change the situation?

Mr. WHITSITT. About 2 years ago—there had been growing for some years the thought that something might be done along the line of informing the public on life insurance. It finally culminated about

2 years ago (I am not sure of the exact date) in a motion at an association meeting that a committee be appointed to explore the question of whether the public seemed well enough informed on life insurance and, if not, whether anything might be done about it. That committee was under the chairmanship of Mr. Frazer B. Wilde, of the Connecticut General Life Insurance Co. of Hartford. It made quite a lengthy study and made a report to the association and was discharged with thanks.

Mr. GESELL. Nothing was done on the basis of the study that was made?

Mr. WHITSITT. Not so far as the association was concerned.

Mr. GESELL. What other committees do you have? What do they do?

Mr. WHITSITT. Well, we have a committee on State premium tax interpretation, which makes studies regarding the State premium-tax laws and how to apply the various statutes to premium taxes. We have a committee on Federal tax interpretation, which studies various problems of interpretation of the Federal act as it applies to our member companies. Most of our committees at the moment are not very active.

Mr. GESELL. Would you say you had named the principal committees of the association?

Mr. WHITSITT. There are some others. They don't occur to me just at the moment.

Mr. GESELL. May I ask you this, are members bound in any way by the action of the association? If there is a meeting or a decision reached by the executive committee or the association at large, are members bound by that action?

Mr. WHITSITT. Not at all.

Mr. GESELL. If the association decides that it wants to take some position with respect to a piece of legislation or any other matter of policy and the other members, some other member, doesn't feel that he wants to go along, he can just refuse to cooperate in that venture. Is that correct?

Mr. WHITSITT. Quite right.

Mr. GESELL. Is he assessed for his share of the expenses even though he disagrees with the program of the association?

Mr. WHITSITT. Well, there wouldn't be any breaking down for individual projects normally. I don't recall an instance where we had a breaking down of a special assessment for a special purpose. Any expenses we have come out of our general budget.

Mr. GESELL. So that he would simply contribute to the general budget and no change would be made because of his not agreeing with a particular policy or program which was under way.

Mr. WHITSITT. That is right.

Mr. GESELL. The only way he could prevent paying his pro rata share would be to resign from the association.

Mr. WHITSITT. That is quite right.

Mr. GESELL. Your association has an annual meeting, does it not?

Mr. WHITSITT. We have an annual meeting each year in December.

Mr. GESELL. Do you also prepare statistical studies of one sort and another?

Mr. WHITSITT. Oh, quite definitely.

Mr. GESELL. And do you give, make those statistical studies available to the companies and to public organizations which may be interested in examining them?

Mr. WHITSITT. We have quite a variety of statistics that we gather. Referring to the annual meeting, we gather elaborate statistics on various subjects and quite a number of those, or several sets or series of those, frequently form the basis of an address at our annual meeting. There are other statistics we gather; for instance, our monthly figures, the monthly figures on new business. We gather those at the request of the United States Department of Commerce, and furnish them to the Department regularly.

There are several other series, monthly figures on assets, monthly figures on premium income, and data on number of employees, and the number of agents.

Mr. GESELL. I think perhaps, Mr. Chairman, we might stop and have these pictures over with, and then go on, if that is agreeable.

Acting Chairman HENDERSON. Very well.

Mr. GESELL. Now, in addition to preparing this statistical information, Mr. Whitsitt, does the association participate in what might be called test litigation of one sort and another?

Mr. WHITSITT. Yes, sir.

Mr. GESELL. Does this schedule which I show you contain the principal cases in which the association has participated?¹ And the amount of the fees that have been paid? And the lawyers involved?

Mr. WHITSITT. Yes; this is of recent years; runs from 1934 to 1938, inclusive. That is right.

Mr. GESELL. Now, I would like to—this schedule indicates that one of the cases which you handled in 1935, or to which you contributed, was the case of the so-called Radford suit, involving the Frazier-Lemke Act?

Mr. WHITSITT. Quite right.

Mr. GESELL. Can you tell us a little about that suit and why the association took a participation in that? I notice that it involved fees in 1935 alone of \$60,000.

Mr. WHITSITT. You may recall the original Frazier-Lemke Act, which was in the nature of a moratorium on mortgages, and also would have permitted scaling down of mortgages; it was felt by our executive committee that this act, if it went into effect—and we opposed it in Congress unsuccessfully—might cause grave damage to the security behind the many mortgages held by our companies, and hence the security behind the policy reserves of our millions of policyholders. Consequently or subsequently we were unsuccessful in opposing it before Congress, and one of the early cases tested its validity which arose in Louisville, Ky., Radford against the joint-stock land bank, I believe it was.

Mr. GESELL. Who is Radford?

Mr. WHITSITT. I do not know.

Mr. GESELL. He wasn't an insurance person, was he, at all?

Mr. WHITSITT. He wasn't as far as I know; I don't know him.

Mr. GESELL. And yet the association wanted to help him out?

Mr. WHITSITT. We wanted to test the principle of the constitutionality of the Frazier-Lemke Act, so we retained Mr. William

¹ Entered later as "Exhibit No. 693," see appendix, p. 4750.

Marshal Bullitt, of Louisville, Ky., who frequently handles cases before the Supreme Court for us, to select a case. It just so happened that one of the junior associates in his office had been retained in this case to test the constitutionality of it. We were very much interested in wanting to employ the best counsel in order to see that it was properly presented to the Supreme Court, so we employed Mr. John W. Davis and Mr. William Marshal Bullitt, who handled the case before the Supreme Court, and it was declared unconstitutional by a unanimous decision, by Mr. Justice Brandeis.

Mr. GESELL. Now will you tell us—

Acting Chairman HENDERSON (interposing). You mean Justice Brandeis wrote the opinion?

Mr. WHITSITT. Wrote the opinion, that is right; concurred in by the eight other Justices.

Acting Chairman HENDERSON. The law would have been a great deal different in this country if a decision could have been made by Justice Brandeis.

Mr. GESELL. Can you tell us what sort of procedure your association went through in determining that it would participate in this particular piece of litigation? Did you have a regular meeting of your executive committee and did they approve the program?

Mr. WHITSITT. As I recall we had several meetings in connection with that. My recollection is that the first meeting authorized us to retain those two gentlemen, Messrs. Davis and Bullitt, to render us an opinion on the constitutionality of the act. That opinion was rendered, the conclusions of which were that the act was invalid. How many meetings we had I can't say without referring to our minutes.

Mr. GESELL. Did you consult your whole membership, or was this a determination made by the executive committee?

Mr. WHITSITT. I am not sure of that; I can't say; it may have been; there may have been an association meeting intervening and there may not have been. I can't say. All of the acts—may I interject this?—at every meeting of the association the full minutes of all executive committee meetings in the interim are presented for ratification and approval and endorsement. Then later the executive committee concluded on the basis of the opinion rendered by these two gentlemen that we should select some case to carry it to the Supreme Court, and have a final determination on the point.

At that time it was determined that Mr. William Marshal Bullitt and Mr. John W. Davis be selected.

Dr. LUBIN. Mr. Whitsitt, your organization and no company connected with your organization were parties to that suit, as I understand it; is that correct?

Mr. WHITSITT. That is right.

Dr. LUBIN. Nor were you *amicus curiae* in the case?

Mr. WHITSITT. What is that? As I explained a few moments ago, the case happened to be in the office of Mr. Bullitt. He—one of his associates had been retained by the, I believe, joint-stock land bank to handle the case, and so the case was in Mr. Bullitt's office. In canvassing the various cases that seemed the most appropriate one to select for the testing, and also seemed the one nearest to appeal.

Dr. LUBIN. In other words, here was an individual private citizen who had brought suit against a given agency the plaintiff was not related to you in any way, but you, your association, said "We will pay the counsel fees for this person, even though he has no relationship to us, because we are interested in seeing to it that this case is presented to the court in a certain way.

Mr. WHITSITT. I guess that is right.

Mr. GESELL. Did your interest in the litigation appear at all, as a matter of public record?

Mr. WHITSITT. I don't recall. In this way, our books are always examined by the New York Insurance Department and we make no secret of it, of our interest in any test litigation. Mr. Bullitt is rather well known as a counsel for insurance companies.

Mr. GESELL. If I were to pick up the record in the *Radford case*, or go look at the Supreme Court reports now, would I know the Association of Life Insurance Presidents was interested and had participated in that piece of litigation to the extent of at least \$60,000?

Mr. WHITSITT. I do not know.

Mr. GESELL. I notice another suit on here called the "New York City Contemplated Suit." Can you tell us what that was? That was in 1934 and involved fees in 1934 of some \$17,500.

Mr. WHITSITT. Was that the—

Mr. GESELL. The payments were made to three sources, Shearn; Root, Clark, Buckner & Ballantine; Bruce and Bullitt. What was the nature of that?

Mr. WHITSITT. My recollection is that had to do with a proposed city ordinance in New York City, taxing in some manner—I am not familiar and don't recall the details—taxing in some manner our insurance companies, and we retained counsel in order to be prepared so that when, as, and if, the act became effective we might want to test its constitutionality. That is my best recollection.

I haven't reviewed the files on that for some time.

Mr. GESELL. In other words, then, these were simply fees expended?

Mr. WHITSITT. In conferences and for opinions.

Mr. GESELL. Getting ready to oppose this legislation if it did go through?

Mr. WHITSITT. If our counsel and if our executive committee finally concluded that it was invalid and should be opposed. It was a preliminary step.

Acting Chairman HENDERSON. I presume you opposed the passage of the ordinance?

Mr. WHITSITT. As I recall—now this is from recollection; I am a little dim on the recollection of this—there were some hearings before the New York City Board of Aldermen and Council.

Acting Chairman HENDERSON. And you probably appeared—did you appear yourself?

Mr. WHITSITT. I did not appear.

Acting Chairman HENDERSON. Did counsel for the association?

Mr. WHITSITT. My recollection is that we had a committee of officers of the New York City companies; that is my recollection. I haven't reviewed this file for quite some time.

Acting Chairman HENDERSON. So your interest in this particular ordinance was apparent? That is, you did make your appearance in the contemplation of the ordinance?

Mr. WHITSITT. That is right. Before we leave the Frazier-Lemke, may I add in connection with the question over there (Mr. Lubin's), our representation in that was in behalf of the Louisville Joint Stock Land Bank, and not Radford.

Acting Chairman HENDERSON. Not Radford? Your people didn't represent Radford, is that it? Your people represented the Government agency?

Mr. WHITSITT. Yes.

Dr. LUBIN. May I ask a question, Mr. Chairman? Just for personal enlightenment. I don't happen to be a lawyer, so I don't know much about legal procedure, but is it customary for—in the practice before American courts—an outside agency to hire counsel to defend cases without being themselves a party of record? Is that a customary procedure in our courts? It is for my own personal enlightenment that I ask that question.

Mr. WHITSITT. It is not uncommon; the railroads, I believe, have done that a great many times.

Acting Chairman HENDERSON. I think that is correct, Mr. Whitsitt. I think it is not an uncommon thing.

Mr. GESELL. I would like to offer this schedule of litigation fees and expenses.

Acting Chairman HENDERSON. It may be received.

(The schedule referred to was marked "Exhibit No. 693" and appears in the appendix on p. 4750.)

Mr. GESELL. As far as your legislative activities are concerned, Mr. Whitsitt, am I correct in saying that each year there is a break-down of your disbursements which shows those expenditures, the amount spent for legislative purposes and the amount spent for nonlegislative purposes?

Mr. WHITSITT. Oh, definitely; that is in order that we may furnish our companies in turn a break-down so that they may comply with what is known as schedule K in the annual statement blank. It is a little bit broader than legislation. It is what is known as D of G, departments of government, meaning legislation or departments of government. Schedule K is a part of the annual statement. Every life insurance company must file, and that was one of the statutes requiring that; to my recollection it was a result of the Armstrong investigation; that each company show in detail the amounts expended for legislation; so we allocate our expenses to legislation and others; and litigation also for schedule J; and then in turn break that down for each of our companies in proportion that they have contributed to our total receipts.

Mr. GESELL. Now can you tell us for the period from 1935 to 1938 by each year the amount of your total disbursements and the amount disbursed for legislative purposes?

Mr. WHITSITT. I think you have some of those here.

Mr. GESELL. Am I correct in saying that in 1935 you disbursed \$480,783, of which \$139,601 was for legislative purposes?

Mr. WHITSITT. That allocation, yes; and that also includes break-down for office rent, other overhead, and salaries, and so on, \$139,601.50.

Mr. GESELL. And in 1936——

Acting Chairman HENDERSON. To clear that up, I gather from your statement that you have a basis of allocation in your office of overhead expense in this break-down you make?

Mr. WHITSITT. In addition to those items that are directly allocable, for instance, if we reimburse a legislative representative so many dollars and so many cents, that is directly allocable, those are directly allocable items.

Then in addition we allocate for our auditors—Haskins & Sells—report, other general items on a basis of a formula compiled by our actuary.

Acting Chairman HENDERSON. Instead of your accountant?

Mr. WHITSITT. That is right, and that——

Acting Chairman HENDERSON. You must have a good actuary, then. An actuary we had before us last week professed not to know much about accounting. Do I understand from that, then, a part of your salaries would be allocated in this break-down to legislative expense?

Mr. WHITSITT. Quite right.

Acting Chairman HENDERSON. So that the \$139,000 wouldn't represent moneys that had been expended entirely in direct legislative activities?

Mr. WHITSITT. The actual disbursement figure for that year, which you have on another year——

Mr. GESELL. \$487,000.

Mr. WHITSITT. Not actual disbursement; for legislation and D of G I think around \$90,000.

Mr. GESELL. We will introduce that schedule in a moment. Now in 1936 your total disbursements were \$331,260, were they not, and your legislative disbursements \$91,241?

Mr. WHITSITT. That is right.

Mr. GESELL. In 1937 your total disbursements were \$390,380, and your legislative disbursements \$181,246?

Mr. WHITSITT. That is right.

Mr. GESELL. And in 1938 your total disbursements were \$505,344, and your legislative disbursements \$147,683?

Mr. WHITSITT. That is right. You haven't included '34; I think you are referring to 5 years.

Mr. GESELL. Will you give us the '34 figures?

Mr. WHITSITT. The total disbursements were \$331,307.71, and legislative \$66,121.83. And may I say regarding the year 1938 the total disbursements were \$505,000? There was one sizable nonrecurring item, something over \$100,000, which was for setting up a retirement annuity plan for our employees.

Acting Chairman HENDERSON. That accounts for the fact that your disbursements in that year outran your income?

Mr. WHITSITT. Yes. Well, we had a balance at the end of the previous year which enabled us to handle this large lump disbursement.

Acting Chairman HENDERSON. But you say you were not in the red.

Mr. WHITSITT. That is right.

Mr. GESELL. Mr. Whitsitt, do you recognize this schedule, which I now show you, entitled "Total fees, compensation, and expenses in connection with legislation and appearances before departments in the Government by States, 1934-38," as a schedule prepared by your office,

showing the fees, expenses, and compensations paid during the years covered directly for legislative purposes to persons not in the employ of the association?

Mr. WHITSITT. For legislative purposes, and, as I said a moment ago, D. of G.

Mr. GESELL. Appearances before departments of government.

Mr. WHITSITT. The heading of schedule K will explain this. Only one minor suggestion, "Prepared by our office"—it was prepared on the form, and the figures were taken from our books by one of your examiners, and our statisticians checked it about 2 weeks after and verified it.

Mr. GESELL. It is a correct statement, is it not?

Mr. WHITSITT. My statisticians tell me that it is correct.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman HENDERSON. It may be received.

(The schedule referred to was marked "Exhibit No. 694" and is included in the appendix on p. 4752.)

Mr. GESELL. This schedule shows for 1934 fees and compensation of \$10,400 and expenses of \$18,758, and for 1935 fees and compensation of \$46,085 and expenses of \$44,154.49; 1936, fees and compensation of \$13,850, expenses of \$13,996.65; 1937, fees and compensation of \$39,675, expenses of \$34,381.15; 1938, fees and compensation of \$8,950 and expenses of \$14,551.41.

Mr. WHITSITT. You will notice that there is a variation from the even numbered year to the odd numbered year—between the even numbered and the odd numbered years because in the odd numbered years there are some forty-odd State legislatures in session and in the even years there are not so many regular sessions.

Mr. GESELL. I notice on the right-hand column this schedule under the heading "Legislative Representatives to Whom Fee or Compensation was Paid," and the names of various individuals and law firms in some instances. Will you explain to us who those persons are, what their connection with the association is?

Mr. WHITSITT. The first one, Mr. Brown, is an agent, possibly a general agent, of the Guardian Life in Alabama; Montgomery, I believe, is his home. For many years he has acted as a correspondent with us, for us, in watching legislation in Alabama which might be detrimental to the interests of our policyholders.

Mr. GESELL. Then you have on that list other individuals connected with insurance companies who receive fees from you for their work in connection with legislative matters.

Mr. WHITSITT. Only in very exceptional cases are payments made to men who are connected with some company. Most of our legislative correspondents are voluntary workers. It happens that this was one of the exceptions and there are two or three from time to time. Usually where we are represented by a general agent or a manager he is a voluntary worker.

Mr. GESELL. Then the bulk of the names that appear on that right-hand column are persons who are employed specially by the association to give representation in the particular State. Is that correct? They have no connection with any insurance company?

Mr. WHITSITT. Most of these, I believe—may I glance down—are counsel. One of these, Mr. Peterson—there is a fee to him—is a

general counsel of a member company, but it was a matter for a department of the government, as I recall, not in connection with legislation.

Mr. GESELL. In order that we can understand in a little more detail what prompts the selection of these particular individuals in some cases, in some cases why you use voluntary workers, as you call them, and in other cases why you employ someone specially, will you tell us a little about your procedure? Am I correct in saying that you review a great number of bills from all States as they come to you in the New York office?

Mr. WHITSITT. Quite right. We have received in each of the last 2 "on" years about 10,000 bills, I suppose.

Acting Chairman HENDERSON. You mean by an "on" year—

Mr. WHITSITT (interposing). The odd-numbered year.

Mr. GESELL. When the legislature is in session.

Mr. WHITSITT. Yes.

Mr. GESELL. You review those bills and classify them in some way in terms of those you consider objectionable and those you consider not objectionable—those you want to watch actively and those you don't.

Mr. WHITSITT. There are various classifications.

Mr. GESELL. Tell us what your classifications are.

Mr. WHITSITT. You have practically stated it. There are bills we feel would be quite objectionable from the standpoint of our policyholders and other bills that might be amended in the course of passage and become objectionable; they would be watched. Other bills are obviously of no interest.

Acting Chairman HENDERSON. You say objectionable to your policyholders. You don't mean you consult the policyholders as to whether or not you should oppose a certain bill?

Mr. WHITSITT. For instance, a premium-tax bill materially increasing the premium tax on policies would obviously have to be borne by the policyholders.

Acting Chairman HENDERSON. But that isn't the sole test you apply as to whether you oppose it or not; that is, it isn't a test of exactly what the policyholders' interest is.

Mr. WHITSITT. Obviously we couldn't consult 64,000,000 persons.

Acting Chairman HENDERSON. My question is, the test you apply is whether or not the insurance companies which are members of your association find it objectionable?

Mr. WHITSITT. Obviously anything that would be to the detriment of a company, I believe, would also be to the detriment of the policyholders.

Acting Chairman HENDERSON. Would that be true with a stock company, would you say, or isn't there a division of interest as between the stockholders and an insurance company similar to what exists in other types of companies?

Mr. WHITSITT. Almost 75 percent of the business is in purely mutual companies; obviously, insofar as that goes, there is no division of interest.

Acting Chairman HENDERSON. What determination is made by the companies themselves as to whether your association oppose or favor any given piece of legislation as representing these companies? That was the purpose of the formation of the association.

Mr. WHITSITT. That is right.

Acting Chairman HENDERSON. Their interests may coincide at times with the policyholders?

Mr. WHITSITT. I think largely so.

Dr. LUBIN. Mr. Whitsitt, in the event that you ran across a piece of proposed legislation which strengthened the position of the policyholder at the expense of the company, would you feel that you would have to pass judgment as to whether or not that bill should be opposed or favored?

Mr. WHITSITT. I am afraid that question is too general.

Dr. LUBIN. Let us be specific.

Mr. GESELL. May I suggest that within the next few minutes we will have specific bills before the committee which the association opposed. Perhaps that will give a better basis for the question.

Dr. LUBIN. Thanks.

Mr. GESELL. Mr. Whitsitt, after you have determined which bills are objectionable to the association, I presume you have some contact at the particular State where the bill has been introduced.

Mr. WHITSITT. We have a correspondent or representative or a law firm. We always—you were asking me a moment ago that I didn't quite complete. It is far better, we have found by experience, that legislative representations be made by men in the business, so that most of our legislative correspondents and representatives are either company officials of, say, a member company, domiciled in that particular State, or some leading general agent or manager in that State. There are, however, several States—I would guess some 8 or 10—where such a person is not available. In those instances we find it necessary to employ counsel to represent us.

Mr. GESELL. Let me see if I understand that. You, in the normal case excluding these 10 or 12 instances that you refer to, deal directly with some company official in the particular State. He may be either an officer of a company or he may be the head of the local agents or underwriters' association, or he may be a specially appointed man representing all the agents and underwriters in that district. Is that not correct?

Mr. WHITSITT. Just along that line, it may be the president or, say, the general counsel or some vice president of a member company, or it may be some leading general agent. He might not necessarily be president of, say, the local life underwriters, or even the chairman of their legislative committee—they frequently have legislative committees.

Mr. GESELL. And you have had frequent contact with the legislative committees of the underwriters' associations in the various States, have you not?

Mr. WHITSITT. Well, quite frequent, but our direct contact is with the man whom we have designated as our correspondent.

Mr. GESELL. There is one man designated as your correspondent in each of these States.

Mr. WHITSITT. That is right. There are one or two exceptions. For instance, in Minnesota we have two member companies there. We send a copy of the correspondence to the man in each company, and there may be one or two other exceptions of something like that.

Mr. GESELL. If you find that you don't get, can't have handy, the right kind of agent or manager or official to represent you in some

locality, or suppose the work becomes too difficult or too complex or too legal in character, you designate some attorney frequently to represent you as your correspondent in that.

Mr. WHITSITT. That is quite right. In a number of States there does not seem to be a man available willing to give his time or a man qualified to handle the situation, and then it becomes necessary to employ counsel.

Mr. GESELL. The selection of a counsel in those States is illustrated on this schedule which you had before you a minute ago, showing fees and compensations, is it not?

Mr. WHITSITT. That is right.

Mr. GESELL. Then, if during a particular legislative session there seems to be a great deal doing and too much to be handled by the local representative, am I correct in saying that it is your practice on many occasions to send down to the legislature an employee of the New York office of the association who goes down and contacts the people there in that State and helps whip things into shape?

Mr. WHITSITT. To coordinate the local activity, oh, yes.

Mr. GESELL. So that you have three different possible contacts in a particular State, or a combination of those three.

Mr. WHITSITT. Explain what you mean by three different combinations.

Mr. GESELL. A representative of the industry, an attorney that you appoint specially, or a representative that you send down.

Mr. WHITSITT. One or the other and possibly an officer of the association.

Mr. GESELL. Now, I ask you whether this document which I show you now, being a letter dated July 12, 1937, addressed to Leroy A. Lincoln, president of the Metropolitan Life Insurance Co., is not a summary of the association's legislative activities for the year 1936, this being a form letter which was sent not only to Mr. Lincoln but to all other member companies?

Mr. WHITSITT. This is in the form of a report, and attempting to boil it down into two pages.

Mr. GESELL. I would like to have this for the record.

Acting Chairman HENDERSON. It may be received.

(The letter referred to was marked "Exhibit No. 695" and is included in the appendix on p. 4754.)

Mr. GESELL. This letter is captioned "1937 Legislative High Points" [reading from "Exhibit No. 895"]:

For the confidential information of member companies, there are outlined below a few of the high points of the 1937 legislative proposals. Detailed information appears in our regular bulletin service.

Of the 46 regular and 14 special sessions—in 46 States, two Territories and Congress—Congress and three States (Minnesota, New Hampshire, Ohio) are still active. Total bills examined here, 11,047, set a new high, almost double that of 6 years ago and over three times that of 10 years ago.

Ten premium-tax-increase bills on foreign companies failed in 8 States, California, Colorado, Florida, Georgia, Minnesota, Nevada, Oklahoma, Washington. None enacted. Such proposals so far failed this year would have increased the annual tax by \$3,300,300. A bill, still pending, was passed by the House to increase the District of Columbia rate from 1½ to 2 percent. This increase has been deleted by the Senate committee.

Seven bills were introduced in five States to subject annuity considerations to premium taxation. Five failed, one was amended in Maryland to exempt annuities and enacted, and the other, in New Hampshire, is still in committee.

Four compulsory-investment bills failed in two States. None enacted.

Nine savings-bank life-insurance bills failed in seven States, Colorado, Connecticut, Missouri, New York, Ohio, Pennsylvania, Rhode Island. None enacted.

Seven bills specifically to restrict policy-loan interest failed in five States—4½ percent in Minnesota and New York, 4 percent in Colorado and Pennsylvania, and prohibition of any interest in California. None enacted. Numerous other bills to restrict general interest failed.

New insurance codes were enacted in Illinois and Alaska. Proposed codes failed in Pennsylvania and Hawaii.

Proposals were made in nine jurisdictions to subject applicants for life agents' licenses to department examination. All failed or were amended to exempt life; except in Washington a new law requires examination but permits it to be given by a company with an approved course of instruction.

A large number of net- and gross-income and sales-tax measures broad enough to include insurance were proposed. Numerous inheritance, intangible, gift, stamp, capital stock, mortgage, and municipal tax bills would have imposed additional taxes on life insurance. One intangible-tax proposal would have specifically taxed annuities and surrender values.

A new Georgia law requires deposits by life-insurance companies. In Alabama, Arkansas, Delaware, and Nebraska proposals to require bonds or deposits in the State were unsuccessful. The Nebraska bill would have required a deposit equal to Nebraska reserve with either 30 percent in Nebraska securities or an additional 2 percent premium tax.

Other noteworthy adverse measures which failed included proposals for premium notices, attorneys' fees and penalties, insurance investigations, prohibition of race distinction, segregation of life-insurance assets, appointment of certain life companies' directors by a State insurance commissioner, and all companies to offer renewable term insurance.

Forty measures of interest from a mortgage-loan viewpoint were enacted. Nearly half extend emergency laws permitting stays of foreclosure, extensions of redemption periods, or modifications of deficiency judgment rights. Others prohibit deficiency judgments in certain cases or provide other changes in foreclosure procedure. Two bills in Oklahoma would have provided for escheat of corporate-owned farm lands held beyond 7 years. One which became law was amended to substitute a penalty. In four States six bills to impose a graduated land tax failed. Two such measures are pending in Minnesota. Numerous other measures adverse to mortgage-loan investments failed.

The favorable outcome is attributable to the cooperation of life-insurance men—both home office and field—wholly typical of the institution of life insurance.

Mr. WHITSITT. I think you stated that went to the presidents of each of our member companies.

Mr. GESELL. Yes; that is correct.

Mr. WHITSITT. That is correct.

Mr. GESELL. Do you recognize this document which I show you as a similar report sent to the member companies on July 5, 1935?

Mr. WHITSITT. Yes; quite right.

Mr. GESELL. I wish to offer this for the record.

(The letter referred to was marked "Exhibit No. 696" and is included in the appendix on p. 4755.)

Mr. GESELL. Now, the report which I read for the 1936 legislative session sets up, generally speaking, does it not, the type of bill which the association considered desirable to oppose?

Mr. WHITSITT. Well, I think you will find some bills in there that we do not take action on. It was a mere question of report. Undoubtedly, most of the bills in there that were referred to as objectionable were opposed. I have to review the list, but I think there were some there that we didn't oppose.

Mr. GESELL. By and large, the bills mentioned in there were opposed by the association.

Mr. WHITSITT. By and large, the bills were opposed, but possibly some of them were supported. I would have to go through it again.

Mr. GESELL. Will you just pick out of there those bills mentioned which were defeated but which the association didn't oppose.

Mr. WHITSITT. Well, I would say this generally. We have never opposed an investigation of insurance. That is the one thing that caught my mind.

Mr. GESELL. All right. What else, Mr. Whitsitt?

Mr. WHITSITT. And I have no recollection of ever opposing prohibition of racial distinction.

Acting Chairman HENDERSON. What was that?

Mr. WHITSITT. I have no recollection that we ever opposed a bill described here as prohibition of race distinction. I think that generally would be true. There may be some exceptions that I haven't caught, but generally that is true.

Mr. GESELL. Now, coming—

Mr. WHITSITT (interposing). On insurance codes, we do not oppose the complete insurance code. Mr. Hogg reminded me of that.

Mr. GESELL. You have your own code, which is the code you wanted adopted.

Mr. WHITSITT. Not necessarily, at all. We are very happy to make suggestions; and if there is a first draft, we are happy to go through that and make suggestions for amendments as we have for a period of 2 years in New York.

Acting Chairman HENDERSON. Do you have a model code of your own?

Mr. WHITSITT. We have one. It is a little antique right now. The American Bar Association has one which, as far as life is concerned, is substantially the same that we considered, so-called standard. We receive requests quite frequently from various persons in States for what we consider standard provisions or a model. We have used it for that, substantially the same as the American Bar Association code.

Mr. GESELL. Referring back to a question by Dr. Lubin for a moment. I noticed there a reference to the defeat of bills requiring a State examination for agents. Your association has opposed that type of legislation, has it not?

Mr. WHITSITT. In the past, some years ago, and for a good many years up until quite fairly recently, we have—our association, the executive committee—felt it was undesirable, and we have opposed those bills; however, it happens that our position on written examinations for life-insurance agents has been reversed, and we are not now opposing written examinations for life-insurance agents where there is a provision that a man may be licensed and operate for 6 months, say, on trial pending his opportunity to take an examination.

Mr. GESELL. During the period before you had this reversal of policy you had opposed examinations by States of life-insurance agents, had you not?

Mr. WHITSITT. That is quite right in most instances.

Mr. GESELL. Was that not the type of situation to which Dr. Lubin referred where the legislation may have been the type of legislation which would have brought to the policyholder an added protection?

Mr. WHITSITT. Is there a question?

Mr. GESELL. Yes; I will repeat it again. Was that not the kind of a bill which would have brought to the policyholders added protection?

MR. WHITSITT. I will answer it this way: The reasons that our executive committee and association felt it advisable to oppose written examinations were these: In a good many States in practice in the early days of examinations it was found that examinations were not given frequently enough, and it was found that they were not given in various sections of a populous State. Some of the agents had to travel great distances, and, also, it was an added expense to the insurance department, which in turn would be an added expense imposed on the policyholders. The companies also felt that since they had been introducing schools—most of our larger companies and most of our membership have various training courses and schools for the training of their agents—they felt that their own training was a sufficient test. Furthermore, it was felt that the mere passing of a written examination does not make an honest man or a man of good character. I would say an educated crook would be worse than an uneducated crook.

DR. LUBIN. Of course, the fact that a man passed an examination doesn't compel you to hire him. He might be dishonest and pass the examination but that is no assurance that you are going to hire him, is it?

MR. WHITSITT. Under the procedure, as I understand it—I am not an agency man—a man applies to the company for an opportunity to become an agent, and the company certifies to the department in order to have an examination given to that man. The arrangement tentatively is made with the company before the examination is taken.

DR. LUBIN. So the company in the last analysis determines whether they will hire the man.

MR. WHITSITT. Now I am referring to our past policy, prior to our recent reversal. At that time it was felt that it was an added burden; however, there have been changes in the times. In recent years there have been many more—well, there have been many taxes; and the way you leave your life insurance will frequently involve the payment of your death taxes and other complications—the various modes of settlement which make it necessary to have a higher standard and our reversal of attitude was along the line of the trends of the day for having higher qualifications for life-insurance agents so that they be better equipped to deal with the insuring public.

MR. GESELL. Let's see about that. In 1934 your association opposed such a bill in Rhode Island, did it not?

MR. WHITSITT. I wouldn't say offhand; we probably did.

MR. GESELL. Will you examine this file, please, and refresh your recollection?

MR. WHITSITT. Yes; this is—as I said, our reversal was quite recent.

MR. GESELL. Now, you opposed it in 1934 and, as this file indicates, a letter went out to Mr. Stearns, general agent of John Hancock, stating [reading]:

As you know, the policy of the member companies of this association in opposition to measures calling for written examination of applicants before they can be licensed as life-insurance agents, is long established and unaltered.

This man, who was a Maurice H. Stearns, you addressed as general agent of the John Hancock, and he replied to you as chairman of the law and legislative committee of the Rhode Island Underwriters Association and said—

Mr. WHITSITT (interposing). Yes; he disagreed.

Mr. GESELL. He said [reading]:

This bill was prepared in this office after a personal visit to the insurance department of one or two of our surrounding States and in correspondence with other insurance departments. You may also know that various other bills, and particularly the bill recodifying the entire life-insurance law of the State, also had our attention. Life-insurance men have done considerable work for the betterment of the business in the State of Rhode Island, and we know that the life-insurance fraternity believe that this bill should become law.

Mr. WHITSITT. Yes; it is quite true. That is an indication of one point that we do not control the agents; they do not always agree with us.

Mr. GESELL. Now, let's just see what happened about that. You wrote back to him again, the association did, and said [reading]:

We are fully in accord with you as to the desirability of having the life-insurance business represented by the highest type of agency personnel. In this connection, however, we feel that the companies, rather than others, should be responsible for the selection of competent and trustworthy agents.

And after that letter had gone out you received a reply, a memorandum in your file, from Mr. Crane, which says:

In view of the sentiment among the underwriters in Rhode Island in favor of this bill, Mr. Creswell—

Who is he?

Mr. WHITSITT. He is our statistician.

Mr. GESELL (continues reading):

telephoned the following with the request that they communicate with their general A companies, making known that opposition to measures of this type and they are the representatives of the Metropolitan, the Prudential, the Equitable, the Mutual Life of New York, the Mutual Benefit, the New-York Life, the Northwestern Mutual, the Connecticut Mutual, Massachusetts Mutual, the Phoenix Mutual, the New England Mutual, and the State Mutual—

and there is recorded against the memorandum that they all will do so.

And subsequently there is a memorandum from Mr. Crane, which says that—

Mr. White, of the Puritan Life, telephoned Mr. Whitsitt this afternoon. He said that a meeting of the agents had been held yesterday to consider the merits of this bill and that the agents had decided to withdraw their support and oppose it.

So that even if there is this disagreement with you among the agents, you are pretty vigorous in your efforts to have your position succeed, are you not?

Mr. WHITSITT. Yes; we were carrying out the policy of our executive committee. Now, it is instances like that and a growing feeling is that there should be written examinations, which resulted in a reversal of our policy.

Mr. GESELL. Why not leave well enough alone if the agents in Rhode Island want this bill and the people of Rhode Island through their elected legislature have proposed a bill which they want to enact, and those people are policyholders; why not have the bill enacted? Why should you interject yourself into the situation at all?

Mr. WHITSITT. We feel we have a stake in the life-insurance business. As a matter of fact we have changed our policy.

Acting Chairman HENDERSON. I gather you would support the bill now; is that it?

Mr. WHITSITT. I don't know as we would go so far as to actively support one; in changing a policy of an organization from one position to another it is usually a matter of evolution; it goes slowly.

Acting Chairman HENDERSON. But if they went ahead you wouldn't have Mr. Creswell telephone down?

Mr. WHITSITT. That is right; quite right.

Acting Chairman HENDERSON. And try to kill it?

Mr. WHITSITT. That is right.

Mr. GESELL. Now one thing that interested me in that file was the indication that the association on occasion apparently communicates with the offices of the member companies and asks them to communicate in turn with their general agents with a view to establishing a concerted action on a particular measure?

Mr. WHITSITT. Quite right.

Mr. GESELL. Now will you explain that procedure to us in some detail and how it works out, and how it is handled?

Mr. WHITSITT. We may have a very vicious tax bill. The average premium tax, which is nothing more than a gross sales tax or a transaction tax, is slightly less than 2 percent. Now assume a bill has been introduced, as has happened in some States, making that 4 or 6 percent. There is an added burden on the policyholders. We feel that such additional burden should not be imposed. We take such local steps as we may have available to us to ascertain the situation as to how strongly the bill is being pressed. In order to meet the situation, however, we need the cooperation of the general agents and managers of our member companies, so we frequently, as you say, will send a telegram to the home offices asking their local representatives in that State—calling their attention to this vicious bill which they might not otherwise be acquainted with, and suggesting that they cooperate with whoever happens to be representing us in the State at that time.

Mr. GESELL. What is the procedure? You wire to the member companies, they get their general agents to meet with your representative, or correspondent, and then a plan of procedure is worked out with a view to defeating the particular bill; is that correct?

Mr. WHITSITT. Insofar as they respond; yes.

Mr. GESELL. Well, what can the general agents do besides vote?

Mr. WHITSITT. Well, they can cooperate with our agent in appearances before committees and possibly conferences with members in educating any member they might happen to know upon the evils of the bill.

Mr. GESELL. You mean they can go out and contact the various representatives and present to them the position of the life-insurance companies?

Mr. WHITSITT. Present their own position as an agent of their company in behalf of their policyholders.

Mr. GESELL. What about stirring up policyholders?

Mr. WHITSITT. Well, in some instances that may have been done. I don't know of a general campaign of that type. It has been suggested many times that we circularize all policyholders; I don't recall that that has ever been done, although frequently an agent will have some

prominent policyholder or several prominent policyholders who would feel that they should also resist the imposition of this burden upon their premiums.

Mr. GESELL. Well, I have here a letter in my hand from Mr. Reardon to you, under date of March 2, 1935, in which he refers to some legislative activities in California. It says [reading]:

We are using as our field forces the California Association of Life Insurance Agents, the State organization of life underwriters, and the various local underwriters' associations throughout the State who are working under our direction. Among other things, they have by this time, through friendly agents, contacted practically every member of the senate and assembly in the State. In addition to that, we are securing a certain amount of publicity through the metropolitan and rural papers against the increase in insurance taxes.

Now, this is the part I was particularly interested in; it says:

While we have only allowed a comparatively small number of policyholders to be contacted, we have succeeded in creating the impression that over 2,000,000 policyholders in this State are up in arms against any increase in insurance taxes, and the writer is competently advised that Governor Merriam's administration is weakening in its purpose to increase the insurance taxes.

That would indicate to me that there are some dangers in approaching policyholders with respect to legislation.

Mr. WHITSITT. I think you are quite right.

Mr. GESELL. I wanted to know—

Mr. WHITSITT. Mr. Reardon no longer represents us.

Mr. GESELL. I wanted to know whether it was the policy of your association to encourage representatives to approach policyholders or whether it was not the policy.

Mr. WHITSITT. Generally not; generally not.

Mr. GESELL. Now that isn't a sufficient answer for my purposes. What do you mean, "Generally not"? You mean not unless necessary?

Mr. WHITSITT. We wouldn't approve of that. It apparently was the idea of the local State association. We can't control the State associations when they get enthusiastically into a legislative fight. They do a good many things we do not approve.

Dr. LUBIN. The members of these State associations are employees of the various companies that are among your members?

Mr. WHITSITT. They are not employees under the doctrine of independent contractor. They are agents of either both members or nonmember companies.

Dr. LUBIN. Well now in the case of Rhode Island, where you did want to control them, it was relatively simple, by calling up the home office and telling their boys what to do and what not to do. Would it not be possible to control them in other instances?

Mr. WHITSITT. That is one of our problems.

Dr. LUBIN. I raise the question because you just said you can't control these people, but apparently in some instances it is possible to control them if you use proper devices to do it?

Mr. WHITSITT. Is that in the form of a question? If so, I didn't understand it.

Dr. LUBIN. Well, I tried to explain why I asked you that question. I can't understand why you couldn't control them in California and you could in Rhode Island, if in both instances they are employees or agents of member companies.

Acting Chairman HENDERSON. May I put it in the form of a question? Do you have any general policy not to contact policyholders?

Mr. WHITSITT. I can answer that in this way. Our general policy has been not to contact policyholders on a wholesale basis. There have been instances, as I mentioned a moment ago, where a number of general agents or agents will wish to contact a certain limited number of their own policyholders, men whom they have insured, and enlist their assistance in opposing certain legislation, but our policy has not been, so far as I have been with the association, to send out a wholesale circularization or wholesale request to policyholders to enlist them.

Acting Chairman HENDERSON. Well, it isn't necessary and would be impractical with 11,047 bills, wouldn't it?

Mr. WHITSITT. Beg pardon?

Acting Chairman HENDERSON. It would be impracticable and almost impossible with 11,047 bills?

Mr. WHITSITT. Yes; it would.

Acting Chairman HENDERSON. Then when you do give a "go ahead" on this contact in these special circumstances, what is the controlling factor in the association's mind which lets them do it in one case as against the general policy?

Mr. WHITSITT. As a matter of fact quite a bit of that is spontaneous on the part of the agents.

Acting Chairman HENDERSON. That isn't my point. I can see your point, that in their enthusiasm to kill a bill in an individual State all kinds of things are done. I am talking now as to the association policy. You have told me the general policy is you do not encourage that; in some special instances you do. Can you give me some illustrations of the circumstances in which you do?

Mr. WHITSITT. I think it would depend somewhat upon how strongly supported and how vigorous the press was on the particular bill in question.

Acting Chairman HENDERSON. Can you give me some instances of specific bills?

Mr. WHITSITT. I don't recall; it has happened several times.

Mr. GESELL. We will present some testimony with respect to that tomorrow, Mr. Henderson, with subsequent witnesses.¹ Now you say it is hard to control underwriters in this matter, referring again to this matter of Mr. Reardon. He was your representative, was he not?

Mr. WHITSITT. At that time.

Mr. GESELL. He stated that the underwriters were working under his direction, did he not?

Mr. WHITSITT. I think he was bragging a bit.

Mr. GESELL. Did you write to him at all about not circularizing policyholders when you received his letter?

Mr. WHITSITT. I don't recall.

Mr. GESELL. Do you recall whether or not you made any effort to acquaint the legislators that there were not 2,000,000 policyholders stirred up?

Mr. WHITSITT. I don't recall.

Mr. GESELL. In view of the principles set forth in your constitution, which is the fourth principle, it states—

to consider carefully measures that may be introduced from time to time in legislative bodies with a view to ascertaining and publicly presenting the grounds which may exist for opposing or advocating the proposed legislation.

¹ *Infra*, p. 4384.

I was wondering how, under any circumstances, the association justified an approach to a legislature through the policyholders; that is not a public presentation of a position of the association, is it?

Mr. WHITSITT. In such a situation as that we make no secret of our opposition. Isn't that quite public?

Mr. GESELL. Do these telegrams to policyholders say "at the request of a representative of the Association of Life Insurance Presidents I am telegraphing to protest against such and such a bill"?

Mr. WHITSITT. I couldn't say.

Mr. GESELL. You know that isn't the fact, don't you?

Mr. WHITSITT. I do not know it isn't a fact; I do not know one way or the other.

Mr. GESELL. Is it part of your procedure when you do approach policyholders to tell your men to make sure that the policyholders advise the legislature that the association has had an interest in that telegram?

Mr. WHITSITT. The point really is this. Here is a very bad bill that would affect these policyholders, and the work of our agents is in educating the policyholder to the evils and dangers of this particular legislation as it would affect him and his family and other policyholders, and when he becomes so familiar with the facts our policy is to present the facts to him—our great trouble in legislation, as a matter of fact, is getting an opportunity to lay the facts before the members of the legislature.

Mr. GESELL. You can go into a legislature with the facts, with a whole written memorandum as to what is wrong with a bill. You can present your position rather actively, can you not?

Mr. WHITSITT. It all depends on the legislature. There are 48 different kinds of legislatures; there are frequent occasions when you can't even have a committee hearing. A bill will be assigned to a committee and reported out before you ever have a chance to present your facts.

Acting Chairman HENDERSON. In those cases, then, you take some more direct action. Is that it?

Mr. WHITSITT. It is obviously necessary, but we make no secret of our opposition to any bill.

Mr. GESELL. May I ask you whether this document is the form of document used by your association in a typical case in encouraging general agents to cooperate with the local representative, and does that second sheet contain the list of persons to whom it was sent?

Mr. WHITSITT. I think that is quite correct. It usually has on it "sent to" and this doesn't have "sent to" here, but I think that is correct.

Mr. GESELL. This is a letter which was sent out in connection with a California bill on April 8, 1937, was it not?

Mr. WHITSITT. Yes.

Mr. GESELL. I wish to offer it in the record.

Acting Chairman HENDERSON. It may be received.

(The letter referred to was marked "Exhibit No. 697" and is included in the appendix on p. 4756.)

Mr. GESELL. There is one part of this problem that I would like to ask you a few more questions about before we finish. You have spoken of your cooperation with underwriters' associations and may

I ask whether you have any formal agreement or understanding with the underwriters' association that they will cooperate with you, or is it a matter which is dependent upon the particular circumstances in every case?

Mr. WHITSITT. We have no agreement whatsoever.

Mr. GESELL. By and large you are able to call upon the underwriter's associations for assistance, are you not?

Mr. WHITSITT. Their interests are largely the same as ours on most propositions.

Mr. GESELL. You have worked rather closely with them, have you not?

Mr. WHITSITT. At times, in some States, yes—in some States not so much.

Mr. GESELL. In some States over a period of maybe as many as 10 years you have always had as your correspondent a representative of the underwriters' association, have you not? I have in mind, for instance, Georgia.

Mr. WHITSITT. I will have to answer from recollection but I do not think Mr. Cooney, who is our contact man in Georgia, is a member of the underwriters, or very active.

Mr. GESELL. You mean he is not chairman of the legislative committee of the Underwriters' Association of the State of Georgia?

Mr. WHITSITT. He may be, I know that he doesn't think much of the national association; he may have a formal membership.

Mr. GESELL. If the underwriters' association is not in agreement with your association have you had many cases where, for instance in Rhode Island, through approach to the management of the various companies you have been able to get association cooperation?

Mr. WHITSITT. I don't recall.

Mr. GESELL. You have no ideas about it at all?

Mr. WHITSITT. Will you make it specific?

Mr. GESELL. Certainly. Have you been able to get cooperation of the underwriters by approaching the managements of your member companies whenever you have desired it?

Mr. WHITSITT. We have not often undertaken, as I recall, to influence the agents of our member companies contra to the action of the underwriters. There have been some exceptions, and you put your finger on one in Rhode Island. There may have been one or two others, but I don't recall them offhand.

Mr. GESELL. By and large, then, it has not been necessary to particularly attempt to line up the underwriters, their interests and yours have been more or less synonymous.

Mr. WHITSITT. Generally speaking, the interests of the underwriters are in their policyholders, as are our interests.

Mr. GESELL. And so they cooperate with you in legislative matters?

Mr. WHITSITT. Yes; they do from time to time.

Mr. GESELL. I have no further questions of Mr. Whitsitt at this time. I would like to ask the committee not to excuse him but to recall him to the stand tomorrow.

Acting Chairman HENDERSON. Are you going to discuss legislative activities again tomorrow?

Mr. GESELL. Yes; in much greater detail.

Acting Chairman HENDERSON. Do you wish the members of the committee to withhold their questions until tomorrow?

Mr. GESELL. I am perfectly agreeable to any questioning.

Acting Chairman HENDERSON. Mr. Whitsitt will be back on the stand?

Mr. GESELL. He will be back tomorrow. The general questioning today has been on the organization of the association. We have not laid emphasis on the direct legislative activities which we will cover tomorrow.

Dr. LUBIN. Mr. Whitsitt, can you tell us briefly why the Association of Life Insurance Presidents opposes the segregation of assets under State laws?

Mr. WHITSITT. You are referring to that California bill? That would mean a walling off, and if carried to its logical conclusion would break a company up into many small bits, the assets of each division only being subject to the liabilities of that section. The whole theory of insurance is that all of the assets of the company are subject to all the liabilities of the company.

Dr. LUBIN. So that in the event that a company wrote both life insurance and, let's say, casualty insurance, if the casualty division was losing money the assets of the life-insurance section would be available to meet those needs.

Mr. WHITSITT. I am not familiar with companies writing that type of business, but my impression is that that would be true, in the question of California related to our disability. Do I make myself clear?

Acting Chairman HENDERSON. We run into this question which I notice was discussed concerning the Nebraska bill requiring a reserve of 30 percent in Nebraska securities or an additional 2 percent premium tax. Would your association oppose that kind of legislation which would require a company to buy securities?

Mr. WHITSITT. Special deposit. Is that what you have in mind?

Acting Chairman HENDERSON. Yes.

Mr. WHITSITT. I don't have the text of the bill here, I have only a summary. A special deposit, somewhat similar, would tend to break down—

Acting Chairman HENDERSON (interposing). Where a state wants to require the insurance company to buy securities of that State equal to the amount of the insurance in force.

Mr. WHITSITT. That is right.

Acting Chairman HENDERSON. You oppose that.

Mr. WHITSITT. Yes.

Mr. O'CONNELL. Does your association oppose bills designed to restrict policy loan interest? Several of those are referred to in your letter of July 12.

Mr. WHITSITT. Policy loan interest rate?

Mr. O'CONNELL. Yes; your letter refers to seven bills specifically to restrict policy loan interest.¹ Do you oppose those?

Mr. WHITSITT. We have opposed the reduction of the interest rate on policy loans.

Mr. O'CONNELL. On the theory, too, that that is contrary to the interests of the policyholders?

Mr. WHITSITT. Yes; definitely.

Mr. O'CONNELL. Of course, those that borrow on policy loans are policyholders.

¹ See "Exhibit No. 695," appendix, p. 4754.

Mr. WHITSITT. Approximately one-third of the policyholders only are borrowers. About two-thirds of policyholders are nonborrowers. Any reduction in investment income which would result from a reduction in the interest rate would in turn result in decreased dividends or increased costs of insurance so that two-thirds would be penalized for the one-third. Furthermore, there are various, many additional reasons, if you are interested in them.

Mr. O'CONNELL. Go ahead.

Mr. WHITSITT. There is a point somewhere in the reduction of the policy loan interest rate—just where I wouldn't say, not being an economist—but somewhere there is a point in reducing the interest rate on policy loans where a company would become nothing more than a banking institution and there would be too big a temptation for the policyholders to borrow on their policies; the company's assets would necessarily have to be in a much more liquid form, hence shorter term securities, hence lower return, and a materially reduced investment income, and hence higher cost of insurance on the policyholders generally.

Mr. O'CONNELL. At a later point in your letter you refer to legislation providing for the appointment of certain life-insurance company directors by a State insurance commission. Does your association oppose that type of legislation?

Mr. WHITSITT. Frankly, I do not recall. I could check up on that. I do not recall. Those bills are very rare and I only recall one many years ago and I am not familiar with this.

Mr. O'CONNELL. You don't recall whether you opposed the one bill many years ago?

Mr. WHITSITT. I would have to check on that.

Mr. O'CONNELL. Do you recall whether your association opposes legislation designed to require all companies to offer renewable term insurance?

Mr. WHITSITT. I will have to check on that. That would depend entirely upon the phraseology of the bill. I would have to see the full text of the bill.

Mr. O'CONNELL. I gather generally speaking that this whole letter related to bills that at that time you opposed.

Mr. WHITSITT. That is right, generally speaking, and I wouldn't want to say until I had reanalyzed that particular bill.

Acting Chairman HENDERSON. Getting back to that question of the opposition to restricting policy loan interest, your point was, I gather, that the rate of somewhere around 6 percent which is charged on policy loans, which has been reduced recently I understand—

Mr. WHITSITT. New York has reduced it to 5.

Acting Chairman HENDERSON. I gather from that that you feel that is a deterrent against the policyholder borrowing back his own savings.

Mr. WHITSITT. It is a deterrent to borrowing on his policy. I wasn't here, but I understood you were discussing lapses yesterday. I am not a statistician, but I imagine if you checked the figures you would find a very high percentage of policies with loans on them eventually lapse.

Acting Chairman HENDERSON. And your idea is that the higher interest rate would be a deterrent.

Mr. WHITSITT. It is one deterrent. Of course, it is only a small-loan business after all. The average policy loan is less than \$600.

including the ordinary and industrial companies, and in some companies the average would be either, say, \$200 or \$300, so the overhead is really a small-loan business. Small-loan concerns charge much more.

Acting Chairman HENDERSON. I understand that. What a man does when he borrows this average \$600—it is his own savings, isn't it?

Mr. WHITSITT. I wouldn't say that. I wouldn't put it that way, quite. It has been so characterized.

Acting Chairman HENDERSON. It is savings, isn't it, Mr. Whitsitt?

Mr. WHITSITT. It is the reserve on his policy, or approximately the reserve on his policy; it is the amount the company has to carry.

Acting Chairman HENDERSON. What do the advertisements of life-insurance companies say? Don't they characterize it as savings?

Mr. WHITSITT. It is a fund that is available.

Acting Chairman HENDERSON. I didn't ask you for your characterization, but isn't it generally represented as savings? Life insurance is a form of savings?

Mr. WHITSITT. Life insurance definitely is a form of savings.

Acting Chairman HENDERSON. When he borrows back at 6 percent, or under the present term, 5 percent, he is paying more for that reserve—I will adopt your term—than that reserve is drawing under the accruals which come to it from investment?

Mr. WHITSITT. He is really borrowing from all of the other policyholders. All of the other policyholders of the company.

Acting Chairman HENDERSON. You mean it isn't separately computed as to how much is a reserve for him?

Mr. WHITSITT. For the purposes of having it in the policy form. This is an actuarial problem. I am not an actuary.

Acting Chairman HENDERSON. I am not an actuary, but I understand fairly reasonably how that reserve is built up. It is the sum total of the reserves of all the individual policies, but he does pay a higher rate, doesn't he, than the reserve generally is earning?

Mr. WHITSITT. You mean higher than the 3 or 3½ assumption rate?

Acting Chairman HENDERSON. Yes.

Mr. WHITSITT. Obviously more than 3½.

Acting Chairman HENDERSON. In that case, what happens is that the two-thirds who do not borrow get an extra earning rate from him, do they not?

Mr. WHITSITT. Well, the cost of insurance is kept down.

Acting Chairman HENDERSON. I didn't ask you that. I said they get an earning from him so that what actually happens—

Mr. WHITSITT. The same as they get earnings from all investments.

Acting Chairman HENDERSON. Yes. But my question was—follow this a little more closely—my question was they get a higher earning rate—

Mr. WHITSITT. Whether the net yield over the cost would be higher I wouldn't know. You would have to ask the investment men or the actuaries. There is quite an overhead.

Acting Chairman HENDERSON. If there is a higher earning rate, what the two-thirds would lose would be this difference; it wouldn't be that they would be subtracting anything from their 3 or 3½ percent assumption rate?

Mr. WHITSITT. Which would be reflected, whatever it would be, would be reflected eventually, I would assume, in the cost of their insurance.

Acting Chairman HENDERSON. In what way?

Mr. WHITSITT. If it would reduce the general investment income, therefore, the investment of the whole company being lower, there would be less available.

Acting Chairman HENDERSON. Wait a minute; let me see. I am assuming that there is a little profit on these loans, just a little bit more than is gotten from the investment, from the assumed interest rate.

Mr. WHITSITT. I couldn't tell you. I am not qualified as an actuary.

Acting Chairman HENDERSON. Adopt for just a minute my assumption; my assumption is—let's leave out the question of whether you know or do not know whether there is anything there—that there is, say, 1 percent; it is 1 percent higher; then those who do not borrow do not lose anything.

Mr. WHITSITT. I wouldn't be prepared to discuss something that I don't know much about.

Acting Chairman HENDERSON. Then perhaps you won't mind if I seem to regard this as a little evasion on your part. I mean, I am asking you just for a simple statement on an assumed set of facts. Suppose that there is \$100,000,000 which is borrowed by one-third of the policyholders out of the reserves on their policies, and you get on that 1 percent more than you get on the assumption rate.

Then the two-thirds who are left who have \$200,000,000, are getting a higher rate of return, aren't they? They are getting more income, assuming always, again—don't let this cloud your mind—that there is that 1 percent there. I am not trying to trap you. I am just asking you a question in terms of a statement you made. You made the statement that the two-thirds lost something.

Mr. WHITSITT. Because they are penalized.

Acting Chairman HENDERSON. You said they were penalized, and I am taking you over to a set of facts where they get more rather than less.

Mr. WHITSITT. You are taking me to a set of facts where they would get more if the rate were maintained, is that it?

Acting Chairman HENDERSON. No. They would get more if they got more. I am assuming they borrowed this \$100,000,000 for a year and they got on that \$100,000,000, the company got, 1 percent more than it would have gotten from its investments. The two-thirds that were left would profit by that, would they not? They might have a lower cost of insurance to take the assumption you make?

Mr. WHITSITT. You are assuming they would get a higher net yield from this field than say a Government bond?

Acting Chairman HENDERSON. Yes.

Mr. WHITSITT. And that the two-thirds who did not borrow would gain by having the policy loans in existence as differentiated from Government bonds?

Acting Chairman HENDERSON. Yes.

Mr. WHITSITT. That seems right.

Acting Chairman HENDERSON. They would gain?

Mr. WHITSITT. That would seem so.

(Whereupon at 12:30 noon the hearing recessed until 10:30 Wednesday, June 14, 1939, at 10:30 a. m.)



INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

WEDNESDAY, JUNE 14, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:50. a. m., pursuant to adjournment on Tuesday, June 13, 1939, in the caucus room, Senate Office Building, Senator Joseph C. O'Mahoney presiding.

Present: Senator O'Mahoney (chairman); Representative Reece; Messrs. O'Connell, Ferguson, Henderson, and Brackett.

Present also: Senator Homer T. Bone, of Washington; Representative J. M. Barnes, of Illinois; Harry J. Daniels, Department of Commerce; Commissioner Edward C. Eicher, Securities and Exchange Commission, and Gerhard A. Gesell, special counsel, Securities and Exchange Commission.

The CHAIRMAN. The committee will please come to order. Mr. Gesell, are you ready to proceed?

Mr. GESELL. Yes, I am; and the first witness this morning will be Mr. Robert L. Hogg.

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HOGG. I do.

TESTIMONY OF ROBERT L. HOGG, ASSISTANT GENERAL COUNSEL, ASSOCIATION OF LIFE INSURANCE PRESIDENTS, NEW YORK CITY

Mr. GESELL. Will you state your full name for the reporter, please, sir?

Mr. HOGG. My name is Robert L. Hogg.

Mr. GESELL. Are you employed by the Association of Life Insurance Presidents?

Mr. HOGG. I am.

Mr. GESELL. In what capacity?

Mr. HOGG. I am now the assistant general counsel.

Mr. GESELL. How long have you been with the association?

Mr. HOGG. I have been with the association as assistant general counsel since September 1, 1935. Prior to that time, from January 1 until July 1, 1935, I was special counsel for the organization.

Mr. GESELL. Have you always been attached to the New York office of the association?

Mr. HOGG. I have.

Mr. GESELL. What was your experience before you joined the association?

Mr. HOGG. I was engaged in the general practice of law in West Virginia.

Representative REECE. And one time had the misfortune of serving in the House?

Mr. GESELL. That is right. You are entirely too modest.

The CHAIRMAN. I hope that Members of Congress, both ex-Members and present Members, won't nominate that a misfortune.

Mr. GESELL. You notice I didn't say that, Senator.

The CHAIRMAN. As a matter of fact I have always had a great deal of respect for the House.

Mr. HOGG. That is the reason I thought Mr. Reece was very modest.

Mr. GESELL. Now, will you tell us in a general way what your duties have been since you have been with the association, the type of work you handle, the type of problems that come across your desk?

Mr. HOGG. I believe that Mr. Whitsitt, the general manager or manager and general counsel on yesterday explained the activities of the association in a very minute way. As assistant general counsel I might say that the very designation of my title, assistant general counsel, ties me very decidedly into the legal aspects of the business. As Mr. Whitsitt pointed out yesterday, about one-third of the activities of the association are concerned with legislation. I have had certain connections with that. My work generally, I may say, has had to do with the preparation of memoranda on legal subjects, and particularly the participation from the home office standpoint of the test litigation which you referred to yesterday.

Mr. GESELL. Have you on occasions been sent by the association to some State during the time that the legislature is in session in that State to help handle legislative matters there?

Mr. HOGG. I recall one occasion that I think would meet that question.

Mr. GESELL. Do you recall that you went to Florida in connection with the session of the legislature in 1935?

Mr. HOGG. I went to Florida; yes.

Mr. GESELL. I show you a memorandum entitled "Memorandum with reference to Florida Legislature activity—1935," and ask you whether that is not a memorandum which you prepared summarizing some of your activities during that session of the legislature.

Mr. HOGG. It is not necessary for me to examine it. I can see this is a photostat copy of such memorandum, but let me qualify your question and my answer. When you say "your activities," this is a summary of the activities as I observed them.

Mr. GESELL. Were you during that period the representative of the association who was in charge of legislative matters in Florida?

Mr. HOGG. I was not.

Mr. GESELL. Who was in charge of them?

Mr. HOGG. If you will permit just a little introductory remark there the member of the staff who was in charge or who primarily had been in touch with legislation in that State, had a minor operation in the spring or winter of 1935, and I might say that I went down there merely to pinch-hit in an emergency. I think I was told

one day that it would be necessary for me to go to Florida, and I left the next day.

Mr. GESELL. How long were you down there, Mr. Hogg?

Mr. HOGG. My trip to Florida—I made two trips there. I wasn't down there continuously. I remember that I went there and was there a few days, returned to West Virginia for a few days, and went back to Florida later, but I was there a substantial portion of the time.

Now, with reference to the first trip, I went down there on the first trip, as I said, pinch-hitting because there suddenly appeared a tax bill which would have levied or exacted a premium tax from foreign insurance companies on a graduated basis. By that I mean, a tax at a certain rate for so many thousand dollars of premiums in one bracket and the rate of tax constantly increasing to the higher brackets. That was a very vicious piece of legislation, and contrary to a decision of the Supreme Court of the United States 3 weeks before that, in the case of Stewart Dry Goods Co. against Lewis, and I went down there primarily on that one bill; that is the reason I went there the first time.

Mr. GESELL. I would like to offer the memorandum which has just been identified by the witness for the record.

The CHAIRMAN. The memorandum may be received.

(The memorandum referred to was marked "Exhibit No. 698" and is included in the appendix on p. 4757.)

Mr. HOGG. Mr. Gesell, I presume I will have an opportunity to further explain this.

Mr. GESELL. I am going to interrogate you on it at length. [Reading from "Exhibit No. 698":]

In handling Florida legislative matters, the following is a chronological outline of activity:

(a) A close check of all pending measures, being a review of such bills, notices of introduction of which had been received by the association, as well as a check for any possible new introductions.

(b) Ascertainment of the attitude of the administration upon general insurance legislation, as well as specific measures.

(c) Ascertainment of whether the organization of the senate and house had been effected by the administration. If so, effectiveness of control.

(d) General sentiment of the legislature as to insurance matters.

(e) Establishing legislative contacts through various life groups, attention first being given to the membership of the insurance and finance committees of the two houses.

(f) General development of a favorable legislative atmosphere with special emphasis upon particular measures.

Before proceeding to the next section of the memorandum, Mr. Hogg, referring to item (e), which states, "Establishing legislative contacts through various life groups," will you explain what is meant by that in your memorandum?

Mr. HOGG. When I found that I was going to Florida I went through the files for the two previous terms to find out exactly who represented the companies, who had done work, and generally tried to find out the people who were in touch with the situation from an insurance standpoint.

Mr. GESELL. Finding out who was who, in other words.

Mr. HOGG. Yes.

Mr. GESELL. And I assume contacting them and getting them acquainted with who you were down there.

Mr. HOGG. When I first went there, that was scarcely as essential as at a later period, and for this reason. I say I went down there primarily on this one bill which laid down a principle which the Supreme Court of the United States 3 weeks previously declared invalid. In Florida there are no general agents in Tallahassee, the capital; it is a very peculiar situation. I was told that the general agents primarily were in Jacksonville and Miami. Jacksonville was on my way, of course, to Tallahassee, and I stopped off to see them, I think one morning, and spent the day going around introducing myself. I knew no one in Florida at all in the insurance business. I handed them a memorandum on the legal aspects of this bill, and I left that with these men whom I met.

Mr. GESELL. That was to acquaint yourself with the people who might be able to help, who were associated with insurance companies in and around Tallahassee?

Mr. HOGG. Well, yes; and, in addition to that, I felt that anybody would know that it was impractical for me, as a stranger, to make any approach to any member of the legislature; as a matter of fact, I never did. I have to find somebody to pass this memorandum along, somebody who was in touch with that particular situation, and point out the defects of that bill.

Mr. GESELL. Under (f) the memorandum states "General development of a favorable legislative atmosphere." Is that much the same thing as establishing legislative contact?

Mr. HOGG. No; it isn't.

Mr. GESELL. Will you explain what you mean by that?

Mr. HOGG. As I say, my approach to this whole thing was—you might say, I started from scratch; I didn't know how to handle it or how it had previously been handled, but I found, very much to my surprise, that all of the difficulties in that State were due entirely to misinformation about insurance. That wasn't, you understand, on the first trip.

Mr. GESELL. This memorandum relates to the whole experience?

Mr. HOGG. To the whole thing; yes. The situation was this: There was an atmosphere in Florida that by taking the total premium income of the life-insurance company and the losses as reported, the balance represented some sort of a margin of profit, and a memorandum had been circulated, had been placed legislative wise, showing the collection, I think, of \$17,000,000 in premiums and the payment of \$10,000,000 in losses.

Mr. GESELL. That was one of the unfavorable factors which are summarized in the second section of your memorandum, was it not, "Prevailing unfavorable factors"?

Mr. HOGG. You requested to know what "general development of a favorable legislative atmosphere" was; I have to tell you about the unfavorable atmosphere first.

Mr. GESELL. Perhaps I had best read the second section before you proceed. [Reading further from "Exhibit No. 698":]

1. In 1934, through the adoption of a constitutional amendment, residence property of the assessed value of \$500, when occupied by the owner as a home, was exempt from taxation.

Representative REECE. Shouldn't that be \$5,000?

Mr. GESELL. I think so.

To overcome this deficit it was necessary to obtain \$10,500,000 in additional taxes from other sources. This, in itself, even in the absence of other factors, constituted a serious threat of increased taxation upon insurance.

2. The Governor, at the beginning of the session, firmly expressed his intention of placing additional taxes upon insurance, due primarily to his conviction that insurance companies had been exploiting the people of Florida, but specifically referred to the report of the insurance commissioner of the State showing that life companies in a particular year had collected approximately \$17,000,000 in premiums while it had, over the same period, paid losses to the extent of only \$10,000,000. He insisted the difference represented profit, his position ignoring payments to living policyholders and residents of Florida. He was firmly convinced of his position and the accuracy of his figures.

That is the situation?

Mr. HOGG. Yes; that is precisely so, and that was so thoroughly so that I was, as a newcomer to the life-insurance business, absolutely shocked to know that that position prevailed.

Mr. GESELL. [Reading further from "Exhibit No. 698":]

The Governor further distributed memoranda of these figures to each of the members of the legislature as justifying his position that insurance taxes should be materially increased and such proposed increase was made a part of the administration program.

4. As indirectly affecting the insurance atmosphere, organized propagandists had created the impression that the fire companies had taken many millions of dollars from the people of Florida by fixing rates in Florida to offset losses in other States. This erroneous impression reflected itself many times with reference to life measures.

5. A general belief that life-insurance companies had unconscionably foreclosed mortgages in the State of Florida.

6. Erroneous belief that life companies took from Florida policyholders many millions of dollars which were invested in other States.

7. Many matters dealing with the internal organization and operation of the large life-insurance companies.

8. Complete domination of both houses of the legislature by the Governor.

Now, those prevailing unfavorable factors, I take it, were the factors which you desired to offset by developing a favorable legislative atmosphere, as mentioned in paragraph (f) on the first page of the memorandum?

Mr. HOGG. Let me rephrase it. Those were the practical aspects of the thing we were facing. I wouldn't say we were trying to develop a favorable atmosphere particularly, but we were trying to minimize an unfavorable atmosphere.

The CHAIRMAN. Before you proceed, may I get a definite conclusion with respect to that figure in the first paragraph? Was the exemption under the Florida law \$500 or \$5,000?

Mr. HOGG. I am inclined to think it was \$5,000. I am quite sure it must have been \$5,000.

The CHAIRMAN. Do you know?

Mr. GESELL. I do not know.

Representative REECE. It is my information that it was \$5,000.

Mr. GESELL. That seems reasonable.

Mr. HOGG. Yes.

Mr. GESELL. Now, the next section of your memorandum is entitled "Procedure," and I want to ask you one or two questions about that, but we will read it first. [Reading further from "Exhibit No. 698":]

As soon as a study of the pending insurance measures had been completed and some thought given to anticipated introductions, it was decided, in view of the administration control of both houses, that it was imperative some effort

should be made to overcome the antagonistic attitude of the Governor, otherwise effective contacts with the membership of either house would be ineffective. To accomplish this end, it was decided the approach to the Governor should be through purely political contacts. Work was begun immediately along this line and was prosecuted incessantly throughout the entire session. Further, since proposed insurance taxation was only a part of the Governor's program and was the portion capable of mustering strenuous opposition, the Governor, through its defeat, might suffer a loss of prestige. Consequently these political contacts urged upon the Governor that a further increase in insurance taxes was wrong on principle and then from the purely political viewpoint the measure might be defeated on its merits, thus affecting administration prestige.

These efforts were stressed while at the same time direct legislative contacts were also developed by the insurance groups.

Now, will you tell me what you mean when you say it was decided the approach to the Governor should be purely through political contact?

Mr. HOGG. I will be very glad to explain that. As I say, when we got there and found—when these measures appeared—I am speaking now primarily of taxation—there was one bill that would have placed an additional 4 percent premium tax on life-insurance premiums. That would have represented—and incidentally the average rate in the United States at that time, I was informed, was $1\frac{3}{4}$ percent—that additional 4 percent would have represented 6-percent premium tax in the State of Florida. I might have become more unduly exercised and shocked because of my comparatively slight experience up to that time, but, as I say, it impressed me; it was shocking to think a 6-percent bill was in there.

I contacted the New York office for information as to what that meant. I asked them to convert for me what a 6-percent premium tax would represent in net income, and found it would have represented 147-percent net income tax on life-insurance companies doing business in the State of Florida.

Another bill—

Mr. GESELL (interposing). Mr. Hogg, my question was very specific. I asked you what you meant by "it was decided the approach to the Governor should be through purely political contact."

Mr. HOGG. That is just exactly what I am leading up to now; we couldn't get those facts before any committee. We would request an opportunity for a hearing—when I say "we" I say that, I am speaking about the general agents; I never contacted anybody. It was absolutely impossible to get a committee hearing on those bills. Not that there was any reflection upon any of the people in charge of it, but they were so firmly convinced that these figures were correct that they were just going to bull this thing through.

Now, under those circumstances there was only one thing to do, and that was to explore and follow up every conceivable angle to convince these people that those figures were wrong; and the only way you could do that, the only practical way—regardless whether you agreed with the situation or not—the only practical way to do that was to get somebody, get hold of somebody who personally knew the people who were pushing this program, and some of these general agents were those people. I recall that two or three of them were close personal friends of the Governor.

They were interested in our problem, and they were interested in him, not only on account of the fact of long personal acquaintance—

ship, but they were also interested in seeing he did not get off on a tangent on a thing that was fundamentally wrong, and those are the men that attempted to get audiences with the Governor.

Mr. GESELL. Then the answer to the question is simply this, I take it, that not being able to get a committee hearing, you decided to get friends of the Governor who were interested in your point of view to present that point of view to the Governor?

Mr. HOGG. To get our facts to the Governor; we were trying to get our facts before the legislature, and before the people responsible for these ridiculous bills.

Mr. GESELL. Now, some of that is discussed in the next paragraph of your letter, is it not, "Cooperation with Florida life underwriters"? [Reading from "Exhibit No. 698":]

1. The agency directors' and managers' conference at Jacksonville is the best organized group of life underwriters in the State. These men were advised of the threatening nature of the legislative situation and requested to furnish a list of the names and addresses of their Florida agents. Card index was then made for this information.

2. Contacts were immediately established with the individual agents to ascertain their sphere of influence with Members of the House and Senate. Each agent was furnished with the names of the Members of the House and Senate from his particular locality and asked to advise us at once as to acquaintance-ship. Where the particular agent was close to some Member, suggestions were made to ascertain the attitude of the particular Member toward insurance. Many other items of a personal nature were also made the subject of inquiry.

3. After the agency contacts had been established, the check of House and Senate membership was made to ascertain the names of those with whom any such agency contacts had been directly established. For example, in many instances Members came from some towns where there were no life agents. To meet this problem those Members from various small communities with no resident life agents were listed and assigned to a larger city for contact. Notably the Jacksonville agents assumed the responsibility for contacts with some Members from the north and the northeast section of the State, Tampa for the south-central portion, and so on.

Now, one or two points in that paragraph interest me. One, you say:

contacts were immediately established with the individual agents to ascertain their sphere of influence with Members of the House and Senate.

Did you make those contacts?

Mr. HOGG. No; I didn't make those contacts; no. I knew they were being made.

Mr. GESELL. Who made them?

Mr. HOGG. The general agents were in and out of there; it was more or less of a hit-and-run proposition; one agent might be there in Tallahassee and another the next day; I don't recall the details; I would have looked them up if I had had an opportunity.

Mr. GESELL. You say contacts were immediately established. Someone must have had the responsibility for making those contacts. I want to know who it was and how it was done.

Mr. HOGG. Well, at this late date I presume they were made by the Jacksonville organization; I don't know; it has been so long ago.

Mr. GESELL. Was that on the suggestion of the Association of Life Insurance Presidents?

Mr. HOGG. I imagine it was; I would have suggested it if nobody else thought of it.

Mr. GESELL. Now what did you mean by "many other items of a personal nature were also made the subject of inquiry"?

Mr. HOGG. A lot of these agents had sold insurance to Members of the House and Senate. They knew them. We felt—when I say “we,” again I want to say the whole group trying to handle this thing—it would be futile to send a stranger to anybody to convince him of the accuracy of your figures. More or less informal information was kept as to the amount of insurance and what agents had sold it, and so forth, and those items of personal nature; if a man had written a letter saying that he favored a bill or he was against one of these bills, a memorandum was made of that, but it wasn’t broadcast, of course.

Mr. GESELL. Let me go on and call your attention to the next paragraph, entitled “Legislative contacts” [reading from “Exhibit No. 698”]:

In order to obtain the most effective contact with Members of the Senate and House, the following course was followed:

1. The geographical location of each Member was indicated upon a large map of the State by using red tacks for House and blue tacks for Senate Members. Attached to each tack was the name and post-office address of a particular Member. The map was on a large scale and clearly discernible for ready reference.

Where was that map kept?

Mr. HOGG. That map was originally kept in some room the general agent had, and I had it put in my room.

Mr. GESELL. It was sort of a chart which helped you with your activities.

Mr. HOGG. It was just an example of salesmanship that any life-insurance agent possessed, I presume.

Mr. GESELL. What were these agents selling?

Mr. HOGG. Well, they were selling life insurance.

Mr. GESELL [reading further from “Exhibit No. 698”]:

2. An individual card index was made for Members of the House of Representatives and a similar index for Members of the Senate. Each carried the post-office address and personal data of the particular Member. Notation was made in some instances as to the best method of approach. For example, if a particular life-insurance agent was personally acquainted with a Member, a notation was made to that effect. It was not considered wise, however, to place much personal information on these cards. This was carried on a separate memoranda. To indicate a Member’s attitude toward insurance, or the names of the particular agents with whom he was on intimate terms, might be subsequently the cause of some embarrassment to both the Member and ourselves in the event that the cards should come to the attention of unauthorized persons. Consequently records as to attitude of Members or each plan of contact were in most cases omitted from the card record, although preserved by independent means.

Now what is there embarrassing about having a card which shows whether or not a legislator will vote one way or another on a bill or whether or not he owns insurance?

Mr. HOGG. Well, I am very glad you have asked that, because it puts me in a position to be able to answer how I would feel personally as a legislator. I would not want as a legislator a card with my name on it saying I had written to Bill Jones and was going to oppose a certain bill and have that lying around loose, or possibly lost on the street.

Now, another thing, there are a good many people who doubtless approved our position. I think I recall one distinct instance when a man said, “Well, confidentially, I am opposed to that bill, but I am

not going to make any declaration or statement until I have got to vote on it."

The CHAIRMAN. Do you suppose you have any card index on the members of this committee?

Mr. HOGG. I think a good many people had them on me. I say legislatively I think they might have had some of those things on me.

The CHAIRMAN. But you haven't answered my question.

Mr. HOGG. I don't think that was such a remarkable development that the agents had it copyrighted or patented.

The CHAIRMAN. Still you haven't answered the question.

Mr. HOGG. In this light vein, I have been quite evasive. To return to your question, of course we have had no occasion to be in such close touch with your committee.

The CHAIRMAN. You say "of course not."

Mr. HOGG. Of course not.

The CHAIRMAN. If you were a Member of the House, I understand from your statement just now that you would have distinctly resented any such cataloging of your activities and your personal foibles, and so forth.

Mr. HOGG. Absolutely, if they had been broadcast so as to carry wrong implications.

The CHAIRMAN. I wonder how Congress would feel about that.

Mr. GESELL. The thing I have difficulty understanding, however, is why, although you keep the information, you keep it on a separate card system; I don't see that that results in your keeping the information any more confidential than it would be if it was all on one card instead of two.

Mr. HOGG. As a matter of fact, I don't know—I don't recall what all of the details were. I remember very distinctly some of them had the information written on the back of a letterhead, in his pocket, preserved by independent—it wasn't stuck on a card index with a man's name, post-office address, and all that sort of stuff on it at all.

Mr. HENDERSON. You didn't have in mind that any of these cards were going to be lost on the street.

Mr. HOGG. Oh, not necessarily.

Mr. HENDERSON. You said they might come to the attention of unauthorized persons.

Mr. HOGG. Well, at the end of the session, nobody knew—I don't know—what became of the cards. Nobody else knew, but I don't know what would have happened or what did happen, as a matter of fact. I want to reiterate again this was written in 1935 and a detail I just don't recall. It wasn't prepared for any use except in connection with the entire file we have in the State of Florida.

Mr. HENDERSON. You probably had some pretty hot information on some of those cards and that was the reason you wanted to keep it a little more secret.

Mr. HOGG. Not at all. I will give you an example.

Mr. HENDERSON. What was the purpose, then, of keeping it?

Mr. HOGG. Well, here is one thing. If a man had made a statement which would indicate his position—no use annoying him to death, like is frequently done to legislators. If he made a statement and his position was fairly definitely known, why go back-tracking.

Mr. HENDERSON. I can understand why you had that on the card, but I gather it went a little bit beyond that.

Mr. HOGG. I think they also had in there the amount of insurance the man had and what company. There is a great deal of jealousy as to this. There was a lot of hesitancy on the part of these agents, giving out the information, who their clients were and the amount of insurance they held. That is one thing.

Mr. HENDERSON. Did you record whether or not they were lining up with the Government?

Mr. HOGG. That is an angle I didn't know anything about. I want to reiterate again, I knew nobody there personally the whole time I was there.

Mr. HENDERSON. You saw these cards?

Mr. HOGG. Not knowing the individuals, they meant nothing to me.

The CHAIRMAN. Well, as a matter of fact, I think it may be proper for me to say here I think that when a man goes into public life or even when he goes into an executive position with big business, he ought to be content to living in a goldfish bowl, and he shouldn't object to anybody having all the information there may be about his whole personal history.

Representative REECE. And objection usually doesn't avail him.

The CHAIRMAN. It doesn't avail him anything at all.

Mr. HOGG. You ask the type of information carried here. My attention has been called here to one letter that is fairly typical. I would have no doubt this went on the record somewhere, telling about a conversation he had with two Members and what they said—this letter, May 16, 1935, from a man named Partridge. I think you have that letter. It just gives a pretty fair picture of the situation.

Mr. HENDERSON. You don't have all the letters though, Mr. Hogg?

Mr. HOGG. I have two or three scattered around here. The only ones I have are the ones the S. E. C. took.

The CHAIRMAN. I do take it that in the compilation of this card index and in the assembling of the information with respect to each of the various Members of the House and the Senate you overlooked nothing that could possibly be regarded as helpful in swaying the vote of that Member.

Mr. HOGG. Absolutely not. In conformity with facts.

Representative REECE. I think the memorandum indicates he was doing a very good job.

The CHAIRMAN. Yes; I think very.

Mr. GESELL. Now if I may, I would like to come to the last section of the memorandum. The next section is entitled "Nature of contacts." I notice there that one of the contacts which was followed was telegrams and letters from the public generally. Will you explain what you mean by that?

Mr. HOGG. I had a little—what turned out to be a little unorthodox thinking in connection with these vicious measures down there. When this 147-percent-net income tax bill put in its appearance, I found out that I had become much more exercised even than the companies had. I wanted to get these agents to contact every policyholder in the State of Florida and tell him exactly what was going on. That was overruled. The agents said it hadn't been done before, but that still didn't convince me; and I attempted to get the personnel from the association to do that very thing, just tell everything—get the facts of the case before these policyholders in the State of Florida.

Mr. GESELL. And do I understand your testimony to be that you never did encourage or get letters and telegrams from policyholders during the 1935 legislature in Florida?

Mr. HOGG. Oh, by no means. The point I am making is I didn't get authority to get enough of them.

Mr. GESELL. But you did pursue the practice, didn't you, of getting letters and telegrams from policyholders?

Mr. HOGG. We certainly did. What I wanted them to do was, the company was to release the list of policyholders in the State, but it was not done.

Mr. GESELL. But, using other means which you had at your disposal, you did get together as much information about policyholders as you could and encouraged the sending of letters and telegrams by policyholders to the legislature.

Mr. HOGG. Well, again I want to say when you say it was the whole plan down there, I subscribed to it most assuredly; as a matter of fact, I was more enthusiastic about it, I think, than the agents were.

Mr. GESELL. Let me call your attention to a letter dated May 5, 1935, and ask you, did you not write this letter to Mr. Frank P. Dearing of the Mutual Life Insurance Co. of New York?

Mr. HOGG. Unquestionably I think I recognize that.

Mr. GESELL. This letter states [reading from "Exhibit No. 699"]:

Senator Futch has just introduced in the senate a companion measure of House 776, which would increase the premium tax to 6 percent. It is now necessary that we establish some immediate contacts with all the members of the senate and the house and unfortunately we have no agents in the home communities of many of these members. Consequently, we have decided to ask you on behalf of the Jacksonville group to establish contact with the following members—

then you list names of senators and representatives, and the next to the last paragraph of your letter states:

It is thought wise that there should be as many telegrams and telephone calls as possible to reach these members from their respective home communities. This, of course, is a matter with which you are thoroughly familiar. Furthermore, it is advisable to have as many communications as possible from policyholders. These, of course, are details concerning which you will use your own judgment.

Mr. GESELL. I wish to offer that letter for the record.

The CHAIRMAN. It may be received.

(The letter referred to was marked "Exhibit No. 699" and is included in the appendix on p. 4761.)

Mr. GESELL. Do you recall this as the telegram you received in response to that letter?

Mr. HOGG. Unquestionably. That unquestionably is.

Mr. GESELL. This is a telegram to you at the Floridan Hotel, Tallahassee, Fla., signed by F. P. Dearing [reading from "Exhibit No. 700"]:

Letter 5th given consideration lengthy session of agency directors conference today, all members writing all agents to immediately solicit 10 letters each from policyholders to representatives, each name listed taken as individual responsibility of one or more members of conference and quick action promised; details tomorrow.

I wish to offer this for the record.

The CHAIRMAN. It may be received.

(The telegram referred to was marked "Exhibit No. 700" and is included in the appendix on p. 4762.)

Mr. GESELL. Now, may I ask you, Mr. Hogg, who paid for all this?

Mr. HOGG. All of the expenses of the agents in making the trips to Tallahassee, such trips as they made, were paid by the individual companies. I think the only item of expense we paid was Mr. Dearing—wasn't it—\$50 or \$60.

Mr. GESELL. Is it not a fact that the association paid Mr. Dearing for stenographic expense involved in the preparation of these communications to policyholders?

Mr. HOGG. I presume it is a matter of fact. I think he should have been reimbursed, I think, unquestionably.

Mr. GESELL. Then this solicitation of the policyholders and the subsequent mailing by them of letters and the transmission of telegrams to the legislators was financed in part by the Association of Life Insurance Presidents?

Mr. HOGG. I am not in charge of the financial end of it. I will consult Mr. Whitsitt.

Mr. Whitsitt tells me that in part those disbursements were paid by the association for the purpose of disseminating correct information to policyholders.

Mr. HENDERSON. I gather that that meant they paid also for the telegrams that were sent by the policyholders.

Mr. HOGG. I don't think so.

Mr. GESELL. I have a file here which I think discloses the nature of the expenditures. I would like Mr. Hogg to identify it and then I will put it in the record.

Mr. HOGG. Yes; unquestionably it is a photostat of the correspondence that passed. Mr. Whitsitt tells me there is \$35.10; Mr. Whitsitt says it is some more than that possibly.

Mr. GESELL. The letter, dated May 8, 1935, from Dearing to yourself at the Hotel Floridan, Tallahassee, says [reading from "Exhibit No. 701"]:

By mail last night we sent you 71 letters addressed to senators and representatives, and as these were put on the train with special-delivery postage they doubtless reached you early this morning. We will send you the balance of the letters today. We regret that it was not possible to send all of them to you last night, but as we understood that you wanted them to be personal letters, it proved to be quite an undertaking on such short notice.

If the other companies' representatives are having as good luck with their efforts as we have had, I feel sure that there are a number of personal letters from policyholders on the desks of the senators and members of the legislature today, and there will be an increasing output of these letters daily from now on.

I enclose copy of a letter written by one of the Sun Life men from Tampa to the chairman of the finance and taxation committee. It is not much of a letter, but the response from Mr. Sandler on the back thereof is quite enlightening.

P. S.—I am keeping a memorandum of the outlay for extra help and overtime work; also, of long-distance calls and telegram tolls, as I suppose the Life Presidents' Association will want to defray this cost as in previous years. I know they do not expect Mutual Life to bear this cost, and when we have it all assembled I will get your "O. K." on the charge and submit it in the usual way.

Subsequent letters indicate a bill of \$35.10 was rendered and that bill of the statistician of the association to Dearing on July 1, 1935. The bill was honored. I would like to offer this file for the record.

The CHAIRMAN. The file may be received.

(The file referred to was marked "Exhibit No. 701" and is included in the appendix on p. 4762.)

The CHAIRMAN. Does this purport to cover the entire expense of this particular campaign?

Mr. GESELL. No; it does not. Mr. Whitsitt has stated that, I understand. Is that correct, Mr. Whitsitt?

Mr. WHITSITT. I think there was another item or two that we disbursed to the underwriters. I can't be sure without looking up the record. I think there possibly was another item or two of small amounts.

The CHAIRMAN. Were any local attorneys retained?

Mr. HOGG. Absolutely none. If there had been, I wouldn't have had to stay there.

The CHAIRMAN. I thought possibly as a stranger you might have felt it necessary to have some other help.

Mr. HOGG. No.

The CHAIRMAN. Were any of the attorneys who represent the various insurance companies in the ordinary business impressed into service?

Mr. HOGG. Absolutely none.

The CHAIRMAN. They were not called upon then to make any representations to the members of the legislature whom they knew.

Mr. HOGG. If I recall correctly, and just intersperse further observation, that it has been so long ago I have forgotten a good many of the details but if I remember correctly one of these measures would have also included domestic companies and the attorney for a domestic company, Florida company, at one time conferred with the agents down there, I think. But we employed no counsel, had no connection with any counsel; that is, the life group.

The CHAIRMAN. But in bringing your pressure to bear upon the Governor, the political pressure to which you referred in the memorandum, did you avoid using any influence that they as attorneys might have exerted?

Mr. HOGG. We avoided that. The people who went to the Governor, Mr. Chairman, as I indicated before, were life, were general agents and managers who stood well in their community and knew the Governor. They were finally able to get an audience with him and convinced him that he was absolutely wrong in his figures, and I have here now a copy of a letter which the Governor wrote to this man who had gone in there to try to convince him, and just three short paragraphs I would like to read it with your permission.

The CHAIRMAN. That will be quite all right.

Mr. HOGG. Dated May 22, and this is in your file, I think, Mr. Gesell. After the salutation, it says:

Just a line in the midst of a busy day to tell you that I am sorry if I offended your feelings the other day when you were in the office. As you probably noticed, I was worn out. However, some good did come from our meeting. As a result of which I checked thoroughly into the situation and have come to the conclusion that you are correct in your statements.

I hope the next time you are in Tallahassee we can have a good laugh over the occurrence and renew our friendship.

That wound up the whole thing.

The CHAIRMAN. May I say, Mr. Hogg, that to my mind the intrinsic merits of the issue are not particularly significant. You may

indeed have been wholly right in resisting this legislation. You probably were right in resisting the legislation, let me say. The significant thing to me, however, is that it was necessary for an association of life-insurance presidents, with its offices in New York, to go to the legislature in Florida to resist this thing, to conduct a very thorough lobby of that legislature—and when I use the word lobby, I don't use it in any offensive sense, understand. I recognize fully the complete right of any citizen or any group of citizens to make representations to the legislative bodies whether they are local bodies or national bodies, but the significant thing to my mind is that this is a national business and its interest is conserved by an association of life-insurance presidents, with headquarters in the city of New York, and those life-insurance presidents have found it necessary to build up a very efficient organization, let me say, to employ a very efficient staff, as evidenced by your testimony and by this material, to make representations to these State legislatures to bring pressure to bear through policyholders upon the representatives of the public, and the thought that arises in my mind is whether it would not be better for the policyholders and better for the insurance companies if we had one national system to handle what is obviously a national business.

Mr. HOGG. It is quite true what you say with reference to the national scope of the business. At the same time I want to point out that on account of the mutual nature of the life-insurance business—when I say that I am talking about substantially 80 percent of it—you can't do anything to a policyholder in a mutual company in the State of Florida that doesn't affect the policyholder in the State of Maine.

The CHAIRMAN. That is just exactly what I am pointing out.

Mr. HOGG. Now I want to get to the point where we possibly part our ways. These companies hold themselves out, and are trustees for the benefit of these various policyholders. We would be derelict in our duty as an association if we didn't go in here and preserve the interests of these policyholders who are really beneficiaries of this trusteeship now.

Now I don't see where particularly there would be any advantage in consolidation; of course, that is a matter of a question of policy to be decided, and there is a difference of opinion on that. I don't know, that is an angle I never have investigated; it is clear out of my sphere of activity.

The CHAIRMAN. I am ready to agree with you that you are trustees for the policyholders, and particularly in the mutual companies. I think you are trustees for policyholders even in those companies which are not mutual. You are trustees in a very real sense for the whole public which is affected by the operation of the life-insurance business, and yet the conclusion which you seem to have in mind is that these trustees should be permitted to exercise their judgment with respect to what is right and proper and beneficial for the beneficiaries without the intervention of any public party which by reason of its scope would be competent to deal with the situation. Now you present the picture of a national insurance system by which legislation in Florida would affect the policyholders in New York. That practically was your statement, wasn't it?

Mr. HOGG. Yes.

The CHAIRMAN. What happens to the policyholder in Florida by reason of the legislation there affects policyholders from the Pacific to the Atlantic, from the Canadian border to the Gulf, and yet under this system it becomes necessary for your association to travel from State to State and bring pressure to bear upon local legislative bodies which by reason of the very facts of the case cannot be expected to be able to apply an adequate pressure to the problems with which they are dealing. Now wouldn't it be better, under such a system, to have a national rule of trusteeship to which these trustees would have to respond? As it stands now, there is no effective way of making them respond.

Let Mr. Whitsitt answer for himself and you answer for yourself.

Mr. HOGG. I think I can pass on to a statement here that I was getting ready to make. That is purely a matter of policy and any expression that I make would not be sufficiently grounded in experience to be worth anything. That is my answer to that. It is clear out of my sphere of activity.

The CHAIRMAN. Mr. Whitsitt, you had some definite information?

Mr. WHITSITT. I wouldn't say that my views are final or anything like that. I would say this: It depends entirely upon what type of Federal supervision or regulation you have in mind. If you have in mind the complete elimination of any contact by the States over insurance including taxation, in other words taking away the taxing power of the States, then our work would be somewhat simpler. If, however, you only intend to superimpose upon the present State regulation some further supervision, then it would not affect our traveling from State to State, as you said.

The CHAIRMAN. Of course, I have no intentions about it at all personally.

Mr. WHITSITT. What you had in mind when you asked the question.

The CHAIRMAN. I don't believe any member of the committee has, either. I am merely trying to probe the situation, but here we have clearly presented a national business with effects upon the whole economy, with no effective system of supervision in the public interest. I feel that those of you who are experts in this business and experts in other industrial lines and in other lines of commerce could very well advise the National Legislature as to what the contents should be of a national system, but that there should be a national system becomes increasingly apparent to me as we proceed with this study.

Mr. WHITSITT. As I say, it would depend entirely upon the type of national supervision, whether you would take away the rights of the State or the rights of the various States to tax the business of insurance. If that were eliminated it would save our trips, but if it is something superimposed and States are allowed to retain their right to tax the insurance premiums, we still would have our tax problem before us in every State.

The CHAIRMAN. My personal desire would not be to create any new burdens to be placed upon insurance or upon any other industry. My purpose would be rather to remove burdens which now exist and to provide a better system of protection for the policyholders and a greater certainty that the trusteeship which unquestionably lies upon the shoulders of the executives in every line of big business would be

more adequately enforced. I didn't mean to interrupt your examination, Mr. Counsel.

Mr. GESELL. That is perfectly all right, Senator; we have just one further matter from this witness. Do you recognize this document as a summary prepared by the association of results of the legislatures in 1935?

Mr. HOGG. Yes. That is on our form of bulletin; it unquestionably is.

Mr. GESELL. I wish to offer this for the record.

The CHAIRMAN. It may be received.

(The summary referred to was marked "Exhibit No. 702" and is included in the appendix on p. 4764.)

Mr. GESELL. Now, Mr. Hogg, it wasn't made quite clear to me as to who was in responsible charge of the activities which we have been hearing about before the legislature in Florida while you were there.

Mr. HOGG. It was more or less of a cooperative undertaking upon the part of the general agents who were primarily in Jacksonville. There was one man who had had a great deal of experience in the work and he assumed the responsibility generally, but I am frank to say that there was nothing done there that I wouldn't have approved.

Mr. O'CONNELL. You want me to believe that you were not in charge but that you would have been perfectly willing to be.

Mr. HOGG. If I had thought it would have been practical I would have. I was there primarily for furnishing information in connection with these various matters that these agents didn't have at their command. I did; I amassed all the data and all the information that I could in connection with it and I had it. We conferred with persons as to putting it in shape, writing it out, and things of that kind; but the responsibility, that is I might say the "guiding influence," as far as the effective work was done, was done by the agents, and I want again to say that I knew no legislator. It would have been presumptuous for me to attempt it at all.

Mr. O'CONNELL. But the battle plan, the card index, and so forth, was kept in your room?

Mr. HOGG. No.

Mr. O'CONNELL. I thought you said that.

Mr. HOGG. I said the map was there; I don't know; it was just a detail, and that wasn't novel. I think we fell into the plan that had been prosecuted prior to that time. I don't know what the plan has been since. That is the only time I was there.

Mr. O'CONNELL. Quite apart from the question as to who was in charge, you see no impropriety in any of the activities outlined in the memorandum which we have been referring to?

Mr. HOGG. Not with the supplementary statement which I have made in connection with it.

Mr. O'CONNELL. I also understood you to say in answer to a question of the chairman that the facts that you collected in connection with the individual members of the legislature were used and it was thought entirely proper to use them to "sway," I think was the word you used, judgment in connection with insurance legislation.

Mr. HOGG. I wouldn't say "sway." Largely it was used for the purpose of being able to get to them and explain the facts. It was information which would have been of use; yes.

Mr. O'CONNELL. Would you accept the word "influence" as the use to which you put the facts that you collected?

Mr. HOGG. I wouldn't say it was influence at all.

The only thing that we asked was an opportunity to present the facts. If the facts influenced him—yes; if the facts influenced him.

Mr. O'CONNELL. The facts I was referring to were facts about the members of the legislature, not about the insurance.

Mr. HOGG. Oh, no; those facts hadn't anything to do with it.

Mr. O'CONNELL. You collected them.

Mr. HOGG. Yes.

Mr. O'CONNELL. You were referring to those facts which you said to the chairman that you collected for the purpose of influencing members of the legislature.

Mr. HOGG. Oh, no. When I say "the facts," I mean the statistical data to influence them.

Mr. O'CONNELL. You wouldn't think it proper to use facts which you collected about members of the legislature?

Mr. HOGG. No. I can very aptly call your attention—

Mr. O'CONNELL. That isn't necessary; I just wanted to be sure that you didn't mean that.

Mr. HOGG. I wrote a letter before this thing ever arose—it is only eight lines—as to just exactly what our policy was in reference to it. May I read it, Mr. Chairman? Just eight lines?

The CHAIRMAN. Yes.

Mr. HOGG. It is a letter which is in your files, I think, Mr. Gesell, referring to our attitude toward a legislator. [Reading:]

In addition, I infer from you that Mr. Blank is the type of legislator regardless of his own personal connections who will exercise his judgment primarily in the interest of his State without at the same time subjecting any of its taxpayers to unreasonable burdens. No one has the right to expect more from a person charged with the responsibility of public office. From your connection with the Association of Life Insurance Presidents in the past, you of course know that its policy has been and will continue to be to take no position, which cannot be substantiated upon a basis of sound judgment and fair dealing toward both the State and the policyholder.

That was sent out before. That is exactly the statement of our position.

The CHAIRMAN. May I see that?

Mr. O'CONNELL. That is very interesting, but that has nothing to do with the question I asked. I asked as to how far you people would go, how far you would think it proper to go in effectuating one of these so-called policies which is very important to your policyholders. My question had to do with what you would think it proper to do in influencing a legislature to carry out a policy that you believed to be sound.

Mr. HOGG. We would not use anything which would be unethical in any sense of the word.

Mr. O'CONNELL. That is a rather broad word.

Mr. HOGG. I am willing to stand on that—nothing that would be unethical in any sense of the word.

Mr. HENDERSON. But in this set of paragraphs having to do with legislative contacts¹ you did emphasize that the facts collected about

¹ See "Exhibit No. 698," appendix, p. 4757, at p. 4759.

the members were important. You take it that they were important in establishing the contacts in order to get your facts before the members; is that it?

Mr. HOGG. Yes; in some respects possibly so, but primarily this: If a man was a substantial policyholder in a mutual company, the inference would be that he would be more inclined to give favorable consideration or would give sympathetic hearing to a bill which would affect his interests, as these proposals would, and which would put a terrific burden, an unconscionable burden, upon the companies; and I want to say this—

Mr. GESELL (interposing). May I ask a question? You say "would be an unconscionable burden." If the Florida tax is increased to 6 percent, that doesn't mean that the Florida policyholders pay that tax, does it? Is it not a fact that the companies prorate those taxes on a Nation-wide basis, so that, as far as the Florida policyholders are concerned, it might have been only an increase of one-half percent?

Mr. HOGG. Well, here, you can't establish a policy applicable to one State and expect some other State to sit idly by and acquiesce and penalize their own people, as the people of Florida would have done if they passed a measure of this kind.

Mr. GESELL. Will you answer my question? Is it not a fact that the companies do prorate those taxes on a Nation-wide basis, so if one State raises its taxes it does not mean that those taxes are paid entirely by the policyholders of that State?

Mr. HOGG. You have raised a—let me answer and say you are correct; but there has long been this question of taxation, which has been a very vexatious one with reference to disparagement. The companies have had a recurring occasion to consider the advisability of classifying the policyholders geographically for dividend purposes, with an extensive examination made, and nobody knows but what that might be the case. Now, if you classify them geographically for dividend purposes, the whole thing is right back on the shoulders of a restricted class of policyholders.

Mr. GESELL. That is not a fact, though.

Mr. HOGG. There is very decided legal opinion to the effect that that can be done; if they would put 147 percent net income tax on Florida policyholders it would certainly justify the companies; it would certainly be justified in making geographical allocation.

Mr. GESELL. Has it ever been done?

Mr. HOGG. It has not ever been done.

Mr. HENDERSON. Where did you get that 147 percent? It isn't 147 percent of the premium itself, is it?

Mr. HOGG. I have the break-down of that and would be glad to give to you.

Mr. HENDERSON. One hundred and forty-seven percent of what?

Mr. HOGG. Here is what we had in mind: The tax system—to put it another way, the substantial taxes of life-insurance companies are represented by premium taxes. We wanted to compare the burden which these measures would have put upon insurance companies with the burdens borne by comparable other businesses; and the only way you could do that was to transpose this 6 percent premium tax into terms of a net income tax, so that instead of passing a 6 percent premium tax, making a 6 percent premium tax, if they had transposed it and put it into a net income tax it would have represented

147 percent of the net income of those companies. Do I make myself plain?

Mr. HENDERSON. You call net income the amount of savings, due to savings and mortality, from the loading?

Mr. HOGG. Frankly, I can't tell you the elements that enter into those figures. Our statistical department prepared the formula.

Mr. HENDERSON. But the 6 percent would have been on the amount of the premiums paid.

Mr. HOGG. That is correct.

Mr. HENDERSON. For each dollar of premiums paid.

Mr. HOGG. That is correct; on the gross premium.

Mr. HENDERSON. Another question. You felt that the situation was so serious that it was likely to recur for the next year, I gather.

Mr. HOGG. I don't know. I didn't know whether I would ever be back down there again or not, but I felt it was to the benefit of the association, whoever did go down again ought to have the benefit of the picture as I saw it at that time, hence this memorandum.

Mr. HENDERSON. You suggest that they get started earlier.

Mr. HOGG. That is correct.

Mr. HENDERSON. Get started on factual presentation to legislators?

Mr. HOGG. No; not necessarily. I found that it was difficult to rouse those agents.

Mr. HENDERSON. I gather from your memorandum that they said this thing had always been defeated and therefore there wasn't any hope.

Mr. HOGG. It was a sort of laissez faire attitude. You couldn't get them to believe that anything like that could happen.

Mr. HENDERSON. And you were somebody from New York who felt more seriously about it than the local people.

Mr. HOGG. Precisely so.

Mr. HENDERSON. And you suggested that they get together in advance of the next session and establish the legislative contacts then.

Mr. HOGG. Whatever was necessary to cope with the situation in view of our experience down there. I was willing, from that memorandum, to leave this entirely in the hands of those local men. Those men, agents and managers, were men every one of whom stood well in the community; they couldn't have had that position if they didn't, and those details I was perfectly willing to leave in their hands.

Representative BARNES. May I ask one question? Not being here yesterday, I was wondering if one of the purposes of your association of which you are counsel was to work to get a uniform system of taxation on policyholders in various States at this time?

Mr. HOGG. I wouldn't say a "uniform system."

Representative BARNES. In other words, there is no equalization between States as to the amount of taxes charged upon the policyholder, but one uniform rate applies to each company as to the States they do business in regardless of taxation.

Mr. HOGG. No uniform rate; no. The average of the United States at that time was $1\frac{3}{4}$ percent premium tax. The present law down there, by the way, is 2 percent.

Mr. GESELL. The next witness is Mr. Cooney, if there are no more questions.

The CHAIRMAN. Mr. Hogg, my attention has been called to the letter of Mr. Whitsitt of July 12, 1937, addressed to Mr. Lincoln, which I think you put in the record yesterday, in which I find this paragraph [reading]:¹ . .

Of the 46 regular and 14 special sessions—in 46 States, 2 Territories, and Congress—Congress and 3 States (Minnesota, New Hampshire, Ohio) are still active. Total bills examined here, 11,047, sets a new high, almost double that of 6 years ago and over 3 times that of 10 years ago.

Since your association with this organization you have been devoting your time largely to this legislation activity?

Mr. HOGG. No; I have not.

The CHAIRMAN. You have not?

Mr. HOGG. No; I have not.

The CHAIRMAN. Could you tell us about this increase?

Mr. HOGG. I couldn't tell you about that.

The CHAIRMAN. Mr. Whitsitt, are you familiar with that? I am referring to that letter of yours of July 12, the increase in the number of bills. You said that it was double that of 6 years ago—speaking from 1937—and 3 times that of 10 years ago. Has this legislative activity been increasing throughout the States?

Mr. WHITSITT. You are familiar, as I stated yesterday, that the number of bills varies from year to year, depending on whether it is an even-numbered year or an odd-numbered year.

The CHAIRMAN. According to the number of legislatures in session.

Mr. WHITSITT. In the odd numbers there are some forty odd and in the even, some 13 or 14 with some special sessions. When we compared, we compared the odd-numbered years with the previous odd-numbered and the even-numbered with the previous even-numbered years. For the present year—of course it isn't complete yet—I imagine it will be somewhere around 10,000 bills passing through our office.

The CHAIRMAN. The point is, This represents a steady increase of legislation affecting life insurance?

Mr. WHITSITT. Not all of those bills directly affect insurance. Of course many of them do not, but they are bills that it is necessary to examine in order to determine whether or not they have any effect upon our business. Many of them are quite objectionable, some of them are bills that do not appear objectionable on the surface but should be watched during the course of the session for possible objectionable amendments; others when we receive them are obviously of no interest. If I get your question, there has been an increase in the last 10 or 15 years, a gradual upgrade.

The CHAIRMAN. To what do you attribute this increase of legislation to which you must give attention?

Mr. WHITSITT. I would consider part of it as a byproduct of the depression. I think that there are more adverse bills, probably other industries (I do not know) have had the same experience, and also because of the taxation situation. We have more tax bills than we used to have, they occur with more frequency. We have had a 6 percent bill in Florida; we had one this year, and I think we had one in 1937 if I am not mistaken, I am not sure of that. The States are—it is an obvious fact—very much in need of money and conse-

¹ See "Exhibit No. 695," appendix, p. 4754.

quently more tax bills are coming in. The same is true of other things.

The CHAIRMAN. In any event it is perfectly obvious that you have to examine at least 10,000 bills every year—

Mr. WHITSITT (interposing). In recent years. I don't recall the figure for '35, but I think it ran fairly close. I am not sure whether the letter has '35 on it or not.

The CHAIRMAN. Would you care to express an opinion as to whether or not most of these bills are beneficial to life insurance?

Mr. WHITSITT. Of the total of 10,000, it is only a comparative few that turn out actually to require attention. I am not sure that I got your question.

The CHAIRMAN. I am trying to find out whether on the whole, after the examination of this large amount of legislation, you feel that most of the bills are satisfactory bills and beneficial legislation, or are most of them subject to criticism?

Mr. WHITSITT. Out of the 10,000, a very small proportion would be subject to, shall I say—

The CHAIRMAN (interposing). But out of those which you finally determine do affect your business?

Mr. WHITSITT. Do I get you this way: Out of the ones that we actually take action on, for a period of years are they increasing?

The CHAIRMAN. Are they good, bad, or indifferent?

Mr. WHITSITT. Out of the ones we actually take action on?

The CHAIRMAN. That is right.

Mr. WHITSITT. Well, I would say that the number run about the same proportion during the various years. Assume 200—I have no figures on it, but assume 200 in '37; I would assume, say, 200 in '39. If that is what you mean, the number of bills on which we take action—

The CHAIRMAN. I am not referring to the number now. This letter of yours was entitled "1937 Legislative High Points," and as I glance over it I would judge that most of these high points had to do with bills which you regarded as at least adverse to the interests of life insurance.

Mr. WHITSITT. Generally so.

The CHAIRMAN. What I am trying to determine is whether or not most of this legislation you regard as being adverse to the interests of the insurance companies.

Mr. WHITSITT. I am not sure that I get you clear; not most of the 10,000.

The CHAIRMAN. Oh, no, no; those that you have examined.

Mr. WHITSITT. Most of those that we take action on, of course, that is quite right.

The CHAIRMAN. Most of them are adverse?

Mr. WHITSITT. Most of those we take action on are either adverse, or quite a number of those bills merely need a clarifying amendment, through an oversight, or lack of facts. As I stated yesterday, our greatest trouble with State legislation is the lack of opportunity to present the facts to the members.

The CHAIRMAN. And this applies to all the States indiscriminately, I mean this situation might arise in Maine or in Florida or California or Oregon.

Mr. WHITSITT. It might arise anywhere, and there are 48 different kinds of State legislatures; there are no two alike.

The CHAIRMAN. And yours is a national organization?

Mr. WHITSITT. International. We have some Canadian members.

The CHAIRMAN. Any Mexican members?

Mr. WHITSITT. Not yet.

The CHAIRMAN. It is obvious, is it not, that you are dealing with a national problem, and the State legislatures are passing laws which affect the interests of companies which have an international aspect and policyholders who are scattered all over the continent?

Mr. WHITSITT. We follow the legislation in all of the 48 States and the District.

The CHAIRMAN. Because it is a national business?

Mr. WHITSITT. Because it affects our policyholders, who reside everywhere.

The CHAIRMAN. Because it is a national business; it is an interstate business, is it not?

Mr. WHITSITT. I wouldn't say it is an interstate business.

The CHAIRMAN. Well, let the record speak for itself.

Mr. HOGG. Mr. Chairman, may I express one qualification to that last answer? Did I understand you to ask whether or not I had any connection with the 11,000 bills? Of course, I have occasion to examine some of the measures. I am not completely divorced from that feature of it at all.

The CHAIRMAN. Let the record show that you are one of the legislative experts.

There are a large number of questions that might be asked, but, Mr. Gesell, you have another witness that you want to call?

Mr. GESELL. I have.

The CHAIRMAN. Very well. Thank you, sir.

(The witnesses, Messrs. Hogg and Whitsitt, were excused.)

Mr. GESELL. The next witness is Mr. Robert L. Cooney.

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. COONEY. I do.

TESTIMONY OF ROBERT L. COONEY, INSPECTOR OF AGENCIES, NEW YORK LIFE INSURANCE CO., ATLANTA, GA.

Mr. GESELL. Mr. Cooney, are you connected with the New York Life Insurance Co.?

Mr. COONEY. Yes, sir.

Mr. GESELL. In what capacity?

Mr. COONEY. My title is inspector of agencies.

Mr. GESELL. Where do you reside, in Atlanta?

Mr. COONEY. Yes, sir.

Mr. GESELL. What are your duties as inspector of agencies?

Mr. COONEY. I have charge of what is called the agency work.

Mr. GESELL. In what States?

Mr. COONEY. Florida, Georgia, North and South Carolina, Virginia.

Mr. GESELL. Are you also a member of the legislative committee of the Georgia Underwriters Association?

Mr. COONEY. I am. I am chairman of it, sir.

Mr. GESELL. What was that answer?

Mr. COONEY. I am chairman of those committees.

Mr. GESELL. Are you also the representative of the Association of Life Insurance Presidents in Georgia?

Mr. COONEY. Yes, sir; but not by any direct appointment. That sort of thing is like Topsy, it has just "growed" on me.

Mr. GESELL. But you have had that as one of your functions for a period of years?

Mr. COONEY. Yes, sir.

Mr. GESELL. For how many years?

Mr. COONEY. Oh, I should say for 15, at least.

Mr. GESELL. You have represented the association in Georgia for about 15 years?

Mr. COONEY. I should say about that; yes, sir.

Mr. GESELL. How often does the Georgia Legislature meet—once every 2 years unless there is a special session?

Mr. COONEY. At one time it was once every 1 year; now the law is once every 2 years, but we usually have a special session in addition to that.

Mr. GESELL. Can you tell us how much time you spend during a year that the legislature is in session on legislative matters?

Mr. COONEY. I would say directly, sir, not so much, because as a matter of fact I have to remain in close contact for possibly the length of each session.

Mr. GESELL. So a good proportion of your time each day for the period of the session is taken up with legislative matters in one way or another?

Mr. COONEY. No, sir; I wouldn't answer it that way. I would say that I keep close in contact and usually stay in Atlanta during the session. As a matter of fact, my time is occupied principally in making addresses to committees when we are called before committees to argue in regard to any bill that happens to be before that committee relating entirely to life insurance. I attend to nothing else.

Mr. GESELL. Now, Mr. Cooney, will you tell us a little about this legislative committee of the Georgia Underwriters Association, of which you are a member? Who are the other two members?

Mr. COONEY. At the present time I happen to be chairman; a man named Sam M. Carson is one member of the committee, and Mr. Baxter Maddox is the other member. We have on occasion called in one or two others who are not directly members of the committee but who have done committee work.

Mr. GESELL. How is that committee appointed?

Mr. COONEY. There are two associations, one the Atlanta Association of Life Underwriters, and the other is the State Association of Life Insurance Companies. I happen to be chairman of the committees appointed by both of those.

Mr. GESELL. They are appointed by the agents either in Atlanta or the State?

Mr. COONEY. Yes.

Mr. GESELL. I take it you incur some expense in connection with your appearances before the legislature, do you not?

Mr. COONEY. Yes. Part of the expenses are paid by the Life Presidents Association.

Mr. GESELL. Am I correct in saying that generally speaking the Association of Life Insurance Presidents will reimburse you for travel, telephone, stationery, stenographers, purchasing of a legislative service, or something of that kind?

Mr. COONEY. No, sir; only a part of it. As a matter of fact, they pay no traveling expenses whatever. If we incur telegraphic expenses or telephone expenses to the association asking instructions or imparting information, and they make a certain allowance for sundries, we will say like taxicab fares going up and down, after all, you go up and down four times in 1 day—

Mr. GESELL (interposing). Some of your expenses are paid out of your own pocket, are they?

Mr. COONEY. Yes, sir.

Mr. GESELL. Is it true that the Underwriters Association at the end of the year chips in to try to reimburse the legislative committee for some of its work?

Mr. COONEY. To a certain extent, yes.

Mr. GESELL. And during the time that the legislature is in session I take it that you continue to receive your salary from the New York Life Insurance Co.?

Mr. COONEY. Yes, sir.

Mr. GESELL. Will you tell us or describe for us the methods which you adopt when a particular bill which is or may be adverse to life insurance is introduced in the legislature?

Mr. COONEY. After it is introduced—as a matter of fact, if I can put in here, if we can learn that a bill is about to be introduced we try to get hold of the man to introduce it and argue the question on its merits and get him to withdraw it. I may say to you, sir, if you will let me diverge a minute, we rather believe in that, like the dutch man at the boarding house where they were tough roosters. He said he ate them when they were eggs.

Mr. GESELL. You mean, you like to get at a bill at its earliest possible moment?

Mr. COONEY. That is right.

Mr. GESELL. Let's say you cannot prevent the sponsor from introducing the bill. What happens?

Mr. COONEY. We try to deal with it before the committee to which it is referred.

Mr. GESELL. Suppose the committee reports it out?

Mr. COONEY. Well now, if it is reported unfavorably that ends it.

Mr. GESELL. Let's assume it reports out favorably.

Mr. COONEY. Then we begin to try to get hold of different members of the legislature in one way or the other and try to convince them they ought not to vote for it.

Mr. GESELL. Suppose the matter is coming up for a vote and the result looks as though the bill may get through?

Mr. COONEY. We have to wait until we see what that is, sir, and then possibly deal with it in the Senate after it goes there, if it is a revenue bill.

Mr. GESELL. You follow the same procedure through the Senate?

Mr. COONEY. To a certain extent.

Mr. GESELL. May I ask you if it is your practice on some occasions to introduce another bill, hoping that by introducing another bill

you can initiate obstructionist tactics which will prevent the original bill from passing?

Mr. COONEY. I can't agree to the word "obstructionist," sir, at all.

Mr. GESELL. Do you recognize this memorandum which I show you?

Mr. COONEY. Yes, I know; I wrote that. I am going to try to explain that to you.

Mr. GESELL. May I read it to you before you begin? This is a letter signed by yourself and Mr. Carson and Mr. Allen. I take it they are the other members of the committee.

Mr. COONEY. Yes, sir; at that time.

Mr. GESELL. Addressed to Mr. Hogg, dated February 25, 1935. The letter states [reading from "Exhibit No. 703"]:

On general principles we are taking up our duties again today, after a 3-day vacation; while the legislature has junketed, we would like to say that we appreciate the arguments—

The CHAIRMAN. What is that?

Mr. GESELL [reading]:

junketed, we would like to say that we appreciate the arguments furnished us, and this committee assimilates same and uses them where practical. There is not the same disposition, however, to regard the altruism of the situation as there was at the time when the money was less needed. So unofficially, we make the following statement. It has been our practice for years.

1. To try to persuade the author of a bill, either before its introduction or after introduction and reference to a committee, to withdraw same. This has worked out oftener than might be thought.

2. We make effort in advance, as described to you, to have friends on the committee and to have meetings at the proper time and under favorable environment. This has frequently worked out.

And this refers, I believe, to the matter we were discussing, Mr. Cooney—

3. If we do not succeed in getting a bill adversed, we try to introduce another bill, hoping that the whole thing will wind up in a row, to be plain about it.

That sentence was what prompted me to use the word "obstructionist."

The CHAIRMAN. Your word was mild, compared with "row."

Mr. GESELL [reading further from "Exhibit No. 703"]:

This has worked out at this session, and I will add, in passing, that we have one man that if any bill comes out on the floor to get up and say that he does not believe in taxing life-insurance premiums at all, and create a diversion in that way.

4. If a bill passes either house and goes to the other house, we try to repeat the above tactics.

5. At this session particularly we have considerable confidence in the Governor's statement that he will veto any tax increase. His language, however, was "citizens of Georgia," but we hope, if any bill should pass both houses, to show him that the taxes rest on the citizens of the State of Georgia.

I would like to offer this letter for the record.

The CHAIRMAN. Mr. Cooney's letter to Mr. Hogg?

Mr. GESELL. Together with Mr. Hogg's reply of February 27, 1935, which is attached thereto.

The CHAIRMAN. Has that been identified?

Mr. GESELL. Will you identify that as a copy of the letter you received?

Mr. COONEY. Yes.

The CHAIRMAN. The exhibit may be received.

(The letters referred to were marked "Exhibit No. 703" and are included in the appendix on p. 4767.)

Mr. COONEY. What particular phase do you want me to comment on, Mr. Gesell?

Mr. GESELL. I asked you whether it was your practice on occasion to introduce a bill, having in mind the possible benefits which would result from obstructionist tactics, and you were about to explain.

Mr. COONEY. I am sorry—if I had known I would have to explain that I would have used a different word. There is no question about that. As a matter of fact what I meant was here comes a man where we have 1½ percent premium tax in Georgia. Somebody introduces a bill to increase it to 3 percent. We will say, for the sake of argument, it gets on the floor of the house, and that has happened only once in several years. In that particular case—

The CHAIRMAN (interposing). I take it the auditors thought that was a compliment; the auditors thought that was a reason for complimenting you.

Mr. COONEY. I respect your opinion. Excuse me.

The CHAIRMAN. I just interfered unnecessarily.

Mr. COONEY. Not at all, sir; I am glad you gave me the opportunity. Mr. Gesell, as a matter of fact we have any number of men who agreed with us, and I state my unqualified opinion that taxation on life-insurance premiums ought not to be more severe than enough to pay for the regulatory body and there are any number of men that agree.

Mr. GESELL. Now I am not interested in the merits of the case here; I am interested more in the methods pursued and I want you to explain, if you can, how you justify introducing obstructionist legislation.

Mr. COONEY. I wanted to confine myself to the word you used. Now, I will repeat, if a 3-percent bill gets on the floor of the house, which it would not usually do, we try to get some man who objects to any taxation on life-insurance premiums at all to introduce a bill to abolish them entirely, except to support the insurance department. Now, as a matter of fact, that gives us an opportunity to argue on both sides of that question, and it has been successful up to a certain point.

Mr. GESELL. Now will you tell us a little more about the procedure which you adopt in approaching sponsors of bills or committee members before the bill gets out onto the floor of either the house or the senate?

Mr. COONEY. I either get somebody who knows them to introduce me, or if I can't get that, I go and introduce myself, which is a poor introduction, I know, and argue the question with him as to the merit of the case.

Mr. GESELL. Now, is it frequently your practice to entertain members of the legislature?

Mr. COONEY. Yes, sir; not as members of the legislature altogether, but as my personal friends, when they are my friends.

Mr. GESELL. Do you recognize this letter of March 22, 1933, signed by yourself, and the two other members of the committee to Mr. Creswell, of the association? ¹

¹ Entered later as "Exhibit No. 704," infra, p. 4402.

Mr. COONEY. Yes, sir.

Mr. GESELL. I wish to read a portion of that letter, commencing on page 3 [reading from "Exhibit No. 704"]:

* * * We mention here that roughly speaking, the expense in money to members of our committee, no part of which has been paid by anybody else, has been about \$500. About \$30 of this was for cab fares to and from the capitol, on hurry calls from our friends, or to get bills just introduced and before the service people were in position to get them. Not one cent for any purpose that is not legitimate, or which any other man, if he worked as we work, would not have incurred. We might mention in passing that we believe in killing a bill before it gets on the floor, or before a committee, if possible. It is much easier to handle one man or two men alone than it is to argue with a whole committee and it is impossible to argue with the whole house. This money has been spent in invitations to those of whom we wished to make friends, and seeing that their wives and daughters were looked after properly and courteously; and a large portion of it in giving a dinner after the session was over to all of those who were good enough to favor us. We have been told that one reason we are kindly received is that we do not forget favors after we get them. The other is that we do not seek to interview members of the legislature while they are in their seats, going through the lobbies, or stop them at their lunches, as most people do.

Now with reference to my questions on entertainment, you say that some of the money has been spent in seeing that the wives and daughters of legislators are looked after properly?

Mr. COONEY. Yes, sir; a good deal of that was spent in my own house and I think if you will let me say it, what I had in mind there, though I didn't make it plain, was that some of that \$500 was in connection with previous experiences but, however that may be, I don't remember just how that was arrived at at that time because I know we spent a good deal of it and pay everything ourselves.

Mr. GESELL. May I suggest we pause for the pictures and then proceed?

The CHAIRMAN. It is all over now.

Mr. GESELL. Now did I understand you to say that it was the practice of you or other members of the committee to entertain members of the legislature in order to obtain a means of putting before them your position?

Mr. COONEY. Yes; I would like to make proper explanation of that, my dear sir.

Mr. GESELL. Certainly.

Mr. COONEY. As a matter of fact I repeat what I said in that letter; it is very hard, if you ever had that kind of an experience, maybe you have, to argue a man out of his position before a number of other men. It doesn't make any difference whether he is right or wrong. If you can get that man and show him the merit of your case and the mistake that he may have in his mind when he is advocating certain propositions, it is easier to reverse him in his own mind by himself, than it is before a lot of other people.

Mr. GESELL. That I take it is what you meant on page 2 of the memorandum when you state [reading from "Exhibit No. 704"]:

The Honorable J. W. Culpepper (previously our friend and our friend again now) previously chairman and now on the ways and means committee, gave notice that he would introduce a 3 percent tax bill. One of our committee had supper with this gentleman, and a long interview afterwards. This bill never made its appearance.

The Honorable J. Scott Davis, of Cedartown, Ga., had prepared by the attorney general of the State, a bill increasing our taxes to 2½ percent. One

of our committee entertained this gentleman and some of his friends, and after an argument on the merit of the case, the Honorable Mr. Davis withdrew this bill.

The Honorable Orville A. Park, of Macon, Ga., introduced a bill, had it read once, referred to ways and means committee, which bill would have increased insurance premiums to 3 percent, but eliminating municipals. We likewise obtained an interview, through entertainment, with the Honorable Mr. Park, the result of which was his statement then that he would withdraw this bill, and that he was sufficiently convinced of the merits of the case to promise opposition to any other bill of the kind that might come up, and to ask for the appointment of a committee to inquire into insurance taxes and make a report to the next session.

Mr. COONEY. I think that means exactly what it says, except that the word "entertainment" I think you misunderstand. I don't mean entertainment with any sinister motive at all.

The CHAIRMAN. I didn't understand what you said.

Mr. COONEY. I don't mean entertainment with any sinister motive at all, any ulterior motive. For instance, you mention Judge Park. That is the man who has written the Code of Georgia twice. I had that gentleman out to my house and after the dinner was over I argued the question with him exactly as that letter states, and he said :

I think the presentation you make convinces me that it would be wrong to increase the insurance taxes, and I won't pursue the bill, and I will oppose anything else.

Mr. GESELL. What I was interested in, Mr. Cooney, as much as anything else, was why it was necessary to approach representatives of the legislature in that manner. Is it not possible to go to see them and talk to them about it in a more public manner?

Mr. COONEY. Yes; as a matter of fact, it is. I have had men engaged in what our chairman has called a lobby, meaning it in an inoffensive way, to stop men running across the lobbies of the house. I have access to the floor of the house but I never use it, except simply to listen to an argument. Now those men don't like that and it never gets anywhere because a man who comes off the floor of the house to go somewhere else has something in his mind, and if you stop him, why he is irritated over it—not mad, you understand; I differentiate between "mad" and "irritated." I am going to be careful about the language I use hereafter.

Mr. GESELL. I would like to offer this letter for the record at this time.

The CHAIRMAN. The letter may be received.

(The letter referred to was marked "Exhibit No. 704" and is included in the appendix on p. 4768.)

Mr. COONEY. That letter means just about what it says, except I don't want the word "entertainment" as we used it to be misunderstood. We entertain them, offer them a lunch or dinner, to talk to those gentlemen when they have nothing else on their minds but the consideration of the question we bring up with them.

Mr. GESELL. Now, Mr. Cooney, let me ask you this: What about campaign contributions? Does your legislative committee make any campaign contributions in the State of Georgia?

Mr. COONEY. I don't know what anybody else does, except what I do on occasion, I do with my personal friends whom I want to see elected. I have done that. Even, may I say, that one time I made some contribution to the campaign fund of the President of this United States.

Mr. GESELL. Now, have you made many?

Mr. COONEY. Yes.

Mr. GESELL. Or few?

Mr. COONEY. Quite a number.

Mr. GESELL. Does your association attempt to participate in the elections and help get men elected whom you want to see in the legislature?

Mr. COONEY. I don't know what the others do. I know I do.

Mr. GESELL. Now, do you recognize this letter of March 1, 1938, written by you to Mr. Pierson, vice president of your company?

Mr. COONEY. I have to tell you at the moment that Mr. Pierson and I have been more or less intimate personal friends for a long, long time, and he and I joke with each other, but I will never do it again.

Mr. GESELL. I notice you marked the letter "Personal."

Mr. COONEY. Yes; that sounds so funny I don't see any reason to explain it.

Mr. GESELL. You do recognize the letter, do you not?

Mr. COONEY. Yes.

Mr. GESELL. I was interested particularly in the second paragraph. You state [reading from "Exhibit No. 705"]:

they have remitted to me all of the expenses that would be proper to charge up. There are some, of course, that do not go into an account of this kind. And I am going to say in passing that (admitting, of course, that we have been rather successful in heading off legislation) the method is to interest ourselves in key men before they are elected, help them to get elected, and then they owe us something instead of our owing them. That is the whole secret.

Mr. COONEY. If that language is not misunderstood, it means exactly what it says.

Mr. GESELL. That is fine.

The CHAIRMAN. The letter may be received. It is rather explicit, Mr. Cooney; I think nobody can misunderstand it.

(The letter referred to was marked "Exhibit No. 705" and is included in the appendix on p. 4770.)

Mr. COONEY. Senator, may I say a word off the record?

(Remarks off the record.)

The CHAIRMAN. I don't know why you say that off the record.

Mr. GESELL. Now, Mr. Cooney, I wish you would tell us a little more about what tactics you use in obtaining advance information about proposed bills and advance copies of bills which are about to be introduced. I gather from what you said previously that that was somewhat essential to the program which you had adopted of getting to the sponsor as soon as you could.

Mr. COONEY. That is to save as much time and trouble as we possibly can. As a matter of fact, we have a number of friends—very evident from the letters you have read. A member of the legislature frequently talks to one of his friends about a bill that is about to be introduced. If you know the method, you know they try to enlist votes for it before they ever introduce it. Our friends sometimes will tell us Bill Smith is about to introduce a bill that will do some damage to us in that particular case. We try to get hold of the man and ask him to withdraw it. I think I made that plain in my letters.

Mr. HENDERSON. What do you call a bill like that, Mr. Cooney? Is that a bell ringer, or do you have some other name for it?

Mr. COONEY. I have another one, but I don't use it here.

Mr. HENDERSON. I think I know it, but I will let it go.

Mr. GESELL. Now, my question was, Mr. Cooney, is it not a fact that you have worked out arrangements with people who have the privilege of the floor to supply you with advance information?

Mr. COONEY. Yes.

Mr. GESELL. Will you tell us what those arrangements are and how you have made them and who you have made them with?

Mr. COONEY. I don't know whether the result had anything to do with the arrangement, but as a matter of fact we had one man who is a reporter for a newspaper who had the privilege of the floor and he hears talk all over the floor about bills to be introduced and then reports it to me, so we can get hold of the men individually instead of having to wait to argue the question in detail before a large body of men.

Mr. GESELL. Do you recognize that letter I show you, Mr. Cooney?

Mr. COONEY. Yes. This is the man I referred to as a newspaper reporter.

Mr. GESELL. This is a letter dated November 21, signed by yourself, addressed to Mr. Creswell, statistician of the association [reading from "Exhibit No. 706"]:

Of course we have to have copies of these bills to study them, but Ed Bradley, of a local newspaper, has access to the floor of the house and a partner, so to speak, on the floor of the senate. For \$100 this man will keep his eyes open, not only for the introduction of bills but for the talk that goes on before a bill is introduced, and this service has proven very valuable to us and has enabled us to abort on occasion the proposed tax measures. I think we should have this service, and I hope we will have your approval.

I would like to offer that for the record.

Mr. COONEY. That letter means just what it says, too.

The CHAIRMAN. That may be received.

(The letter referred to was marked "Exhibit No. 706" and is included in the appendix on p. 4771.)

Mr. GESELL. That expenditure was approved by the association, was it not? Now do I understand you to say that you yourself have the privilege of the floor?

Mr. COONEY. I have, but I don't take advantage of it very often. As a matter of fact, I am going to say here for the record, or otherwise, that I think there is a resentment against a man who is not a member of the legislature running around on the floor of the house and I have had complimentary cards to both the senate and the house for years and years. At the last session of our legislature I don't think I went into it three times.

Mr. GESELL. May I ask just from the point of view of ignorance and curiosity what the difference is between your going and your paying a man \$100 to go for you?

Mr. COONEY. Because he is there all the time and he legitimately is there seeking information, news for his newspaper, and I am not.

Mr. GESELL. He is there under an entirely different guise?

Mr. COONEY. Absolutely.

Mr. GESELL. Now, do you recognize this letter to Mr. Hogg, dated March 3, 1937?

Mr. COONEY. Yes, sir. Let me get the gist of it, if you don't mind.

Mr. GESELL. Certainly.

Mr. COONEY. Yes, sir; that man is a good friend of ours and a good-sized policyholder in the New York Life.

Mr. GESELL. Now, I was interested particularly in the last two paragraphs where you say [reading from "Exhibit No. 707"]:

we have made five or six friends who will oppose on the floor of the house any increase whatever in premium taxation. A typical letter from the Honorable J. B. Joel is herein, together with copy of my reply.

I have replied in this way because I have understood this morning, to repeat the expression used to me, that I am a marked man. I have the privilege of the floor and I have been down to the legislature several times, possibly a dozen or more. The speaker of the house has made the public statement that he does not wish any member to accept any invitation given by any person who has any interest in legislation before the house. I will try to deal with this later.

Mr. COONEY. Yes, sir; that means what it says, too. As a matter of fact, I have abandoned the invitations we used to give to a very great extent.

Mr. GESELL. I notice in the accompanying letter that on the very same day you offered Mr. Joel an invitation to come to your house, saying:

I know that you will not understand me as having any ulterior motive when I say I will be glad to have you at a meal at my house any time convenient to you, and herewith promise not to bring up the question of insurance taxation.

Mr. COONEY. I think that is a plain social invitation. It says so on the face of it.

Mr. GESELL. But what about the other entertaining which we have already considered in the record?

Mr. COONEY. One minute. Entertainments are of various kinds and I repeat my explanation of what I mean by the word. Sometimes I have one man to lunch; sometimes I have a man and his wife to my house to dinner. If you will take a particular species I will try to explain it.

Mr. GESELL. I would like to offer this letter of which I have just read a portion for the record.

The CHAIRMAN. The letter may be received.

(The letter referred to was marked "Exhibit No. 707" and is included in the appendix on p. 4772.)

Mr. GESELL. Now, will you tell me whether as part of your program you occasionally, when a bill gets out on the floor of either the house or the senate, attempt to stir up interest in the agents and general managers and policyholders in the State so that they can express their disapproval through letters and telegrams and otherwise?

Mr. COONEY. I want to correct the statement "gets out on the floor of the house." That has happened only once in the last several years. I repeat that because we have another letter; now, as a matter of fact I think Mr. Reilly took from my files a letter that I had written to every insurance agent in the State of Georgia that we knew; that is, the agents of the members of the association.

Mr. GESELL. Is that the letter I show you now?

Mr. COONEY. This is one of them I wrote, too; I don't know whether you have the other one or not.

Mr. GESELL. That is such a letter?

Mr. COONEY. If you read that, please read it all.

Mr. GESELL. I certainly will. A letter dated February 26, 1937; it is a letter signed by yourself as an inspector of agencies, written to all Atlanta Nylics (reading from "Exhibit No. 708"):

Since the middle of January I have been so busy fighting any increase in premium tax that I have hardly had time to do anything else.

By the way, that would indicate that you were a little busier than you indicated at the first part of your testimony?

Mr. COONEY. Not at all. It indicates this particular session, when the State needed money more than it ever did, it worked harder.

Mr. GESELL [reading from "Exhibit No. 708"]:

You know when we insure a man we persuade him to tax himself to keep his dependents from taxing others after his death, and it is really not fair to levy any tax on premiums in any amount except enough to pay for supervision. We are paying in Georgia today a little more than the average in the United States. There is a bill to increase this. The rate of percentage as named in the bill now under consideration would make taxes here higher than anywhere else in the country.

Your senator or your representative will probably be back home tomorrow. The legislature adjourns this afternoon until Monday. I want you, for the sake of your own business and for your policyholders, whom we are bound to protect, to see this representative or senator personally and urge against any increase in premium taxation in this State for the reasons above stated.

I feel sure that you will do this, and I am going to repeat to you that I have been giving all my time to it for the last month, and I do it because I think it is fair to the policyholders, out of whom we make our living. That's the plain fact in the long run, so kindly do this for me.

I am glad to tell you that the business this year is 50 percent ahead of last year, and I hope you have had your share. I have wanted to see every one of our agents, and I will do that as soon as the matter that has been so serious is over.

Good luck to you, and see if you can't send me an application by return mail. Address it to me personally and I will see that it gets to the right place.

I would like to offer that for the record.

(The letter referred to was marked "Exhibit No. 708" and is included in the appendix on p. 4772.)

Mr. COONEY. I say, if Mr. Gesell will tell me what criticism he has of that letter I will be glad to try to make it plain.

Mr. GESELL. I have not attempted to criticize, only to bring out the facts, Mr. Cooney. Is that the type of letter which you have written on occasion to the agents of the New York Life Insurance Co. eliciting their support?

Mr. COONEY. Yes, sir; but I want to say here I am perhaps confusing myself with the statement about my giving my whole time to it for a long while, that is to put the responsibility on those fellows to give some of their time to it.

Mr. GESELL. Well, you are anxious when a bill comes out, then, I take it, on the floor, to have as much support as you can from the agents and general managers throughout the State?

Mr. COONEY. I answer that "Yes"; unequivocally.

Mr. GESELL. Do you send similar letters or cause similar letters to be sent to the agents and managers of other companies?

Mr. COONEY. Yes, sir; as far as I can.

Mr. GESELL. What efforts do you make to stir up a policyholder himself in the expressing of disapproval?

Mr. COONEY. None at all, except through the agents who have insured them and who know them.

Mr. GESELL. Will you explain that in a little more detail?

Mr. COONEY. Your question was, what efforts do I make outside of letters like this to contact policyholders and stir them up, is that it?

Mr. GESELL. That is it.

Mr. COONEY. None, except that way.

Mr. GESELL. You answer none except those agents to see the policyholders?

Mr. COONEY. Yes.

Mr. GESELL. And have them wire——

Mr. COONEY. I stopped that all years and years ago. If you men stopped that you would be happier. Everybody knows they are paid for by somebody else and incited by somebody else, and written by somebody else, and sometimes signed by somebody else.

Mr. GESELL. The agent makes a personal contact with a man whom he has insured, calling his attention to the fact that he has put a tax on himself to keep his children from taxing somebody else?

Mr. COONEY. That is the strongest support there is.

Mr. GESELL. Your objection to telegrams is that they are a source of irritation and initiated too obviously by someone else?

Mr. COONEY. Do you remember some utility man? If I had been president of that company that wouldn't have happened. No; Mr. Gesell, those things simply irritate the men; they know the source of those; they know there isn't 1 out of 100 written by the name signed to it, and possibly half of them are signed by somebody else. I think that was in evidence here sometime ago.

The CHAIRMAN. The practice still continues, Mr. Cooney, I can testify.

Mr. COONEY. Won't you let me help you stop it?

The CHAIRMAN. If you know how to do it, I would welcome it.

Mr. GESELL. Do you recognize this as a letter which you wrote to Mr. Pierson?

Mr. COONEY. Yes, sir.

Mr. GESELL. That is a letter dated——

Mr. COONEY. 1934.

Mr. GESELL. July 5, 1934. It reads as follows [reading from "Exhibit No. 709"]:

Please let me write you in a personal way. Last week I went to Rome, Ga., and invited to lunch 20 men, whom I happen to know, large policyholders. Every one of them in our company, and, of course, with other companies, too, some of them. The 20 men carry a million and a half of life insurance.

I talked to them some about the taxation of premiums, as I am sure we are going to have a world of trouble with the next legislature. We have laid some foundation, I think, on which to build, to stall this. But what I want to say is, that I asked these men (and repeat, in a most personal way, they understanding that no company had anything whatever to do with it, but that I was inviting them and meeting them as a fellow policyholder) what they would do if it were indicated that this, that, or the other man would vote to increase the tax on their premiums. Their response was, to name the man who would do that and they would do the best they could to keep him from going to the legislature again. This is a straw.

Mr. COONEY. Now, I will have to ask you, Mr. Chairman, may I amplify that a little?

(The letter referred to was marked "Exhibit No. 709" and is included in the appendix on p. 4773.)

Mr. COONEY. As a matter of fact, the use of the word "legislature" was absolutely improper. That was a city managership government and the people that were involved in that were the city manager and the city clerk.

Now, as briefly as I can put it, we have a 1½ percent premium tax in Georgia, and in five cities of Georgia we have another premium tax on top of the State tax. We also have in nearly every city of Georgia a license tax. We have a county tax on the statute book, we have taxes in every which way. Now, this city manager came to Atlanta and asked whether his city couldn't levy a premium tax. The answer was that other cities had done it. Mr. Carson and I did our best to convince those two men that no premium tax ought to be levied in Rome and we couldn't get anywhere. So I invited—and by the way paid for that lunch myself, it has never been reimbursed from any source—a lot of those men to dinner, I made a beautiful speech at the senate, if you will permit me to say so, I almost cried over it myself. I explained that any mutual taxes in a mutual company like ours are bound to come out of the policyholder, they are bound to increase the cost of this insurance which we universally try to make as little as we can, and if they wanted to vote to return the city manager and the city clerk with the idea that they would levy a premium tax and cost their own cities more for their insurance to do it, that is the gist of that.

Mr. GESELL. Do you recognize this letter dated February 12, 1937, addressed to Mr. Hogg, as a letter which you wrote?¹

Mr. HENDERSON. For the purpose of the record, Mr. Cooney, you said the use of the word "legislature" was improper. You mean it was incorrect?

Mr. COONEY. The legislature has been on my mind for so many years, I meant the city council in that particular case, the city manager. Please accept that explanation if you can.

Mr. GESELL. Do you recognize that letter as one that you wrote?

Mr. COONEY. Yes; I do.

The CHAIRMAN. Before you go to that, does the city council in Rome, Ga., meet in special sessions?

Mr. COONEY. That I don't know, sir.

The CHAIRMAN. In stated sessions?

Mr. COONEY. That I don't know.

The CHAIRMAN. That isn't the practice, is it?

Mr. COONEY. That I don't know.

The CHAIRMAN. You see, your reference to the legislature in your letter reads as follows [reading from "Exhibit No. 709"]:

I talked to them about the taxation of premiums, as I am sure we are going to have a world of trouble with the next legislature. We have laid some foundation, I think, on which to build to stall this.

Am I to understand that those two sentences were not referring to the next session of the legislature?

Mr. COONEY. What did you say, Senator; I beg your pardon?

The CHAIRMAN. I say am I to understand that this reference is not to the next session of the legislature but to the continuing sessions of the city government?

¹ Subsequently introduced as "Exhibit No. 710," *infra*, p. 4410.

Mr. COONEY. Yes, sir. Yes, sir; if I remember the letter—the individual letter that you are referring to.

The CHAIRMAN. You have just been handed a copy of the letter. Will you read it over?

Mr. COONEY (reading from "Exhibit No. 709"):

Please let me write you in a personal way. Last week I went to Rome, Ga., and invited to lunch 20 men, whom I happen to know, large policyholders. Every one of them in our company, and, of course, with other companies, too, some of them. The 20 men carry a million and a half of life insurance.

I talked with them about the taxation of premiums, as I am sure we are going to have a world of trouble with the next legislature. We have laid some foundation I think, on which to build to stall this. But what I want to say is that I asked these men (and repeat, in a most personal way, they understanding that no company had anything whatever to do with it, but that I was inviting them and meeting them as a fellow policyholder) what they would do if it were indicated that this, that, or the other man would vote to increase the tax on their premiums. Their response was to name the man who would do that and they would do the best they could to keep him from going to the legislature again. This is a stray.

This referred to the city manager and city clerk.

Incidentally that legislative business—I am going to have to reverse something I said. As a matter of fact, the men in Rome who elect members of the legislature and those important men who are interested largely in life insurance I addressed on that subject, too; I remember that at the moment, Senator.

The CHAIRMAN. Then you were dealing—

Mr. COONEY. Will you let me say this much more before I quit? One fellow there who had about \$200,000 of insurance put his hand on the shoulder of the city manager and said, "Mr. Cooney, if we do that, we will see they never get back." That related entirely to the taxation on the part of the city, don't you understand, in addition to the State tax. On the other hand, politics—we call it so—more or less is bound up in various ways. You have county politics, city politics, State legislation, and any impression made in regard to city taxation extends itself, of course, to State taxation.

The CHAIRMAN. And you qualify as an expert in all these lines, I take it.

Mr. COONEY. No, sir. I claim to be nothing but a common life-insurance agent with a point of view that is distinctly in the interest of the policyholders.

The CHAIRMAN. Oh, I understand your point of view. But the effect of the testimony is that it was your job as the representative of the company and as acting for the association to watch legislation affecting life insurance, whether it was before the legislature or before the city council.

Mr. COONEY. Yes; I would say that.

The CHAIRMAN. And you devoted a good deal of your time to that task.

Mr. COONEY. No; not so much. I have tried to tell you I give most of my time to work with the agents and I give a great deal of my time to get them to give theirs.

Mr. GESELL. You have identified a letter dated February 12, 1937, which reads in part [reading from "Exhibit No. 710"]:

* * * and we have stirred up activity all over the State. All the insurance associations have protested, and I ventured to suggest a little

reprisal some day on the part of policyholders. That has made several of them sit up and pay attention.

That would indicate to me that it is part of the program on occasions to stir up policyholders.

Mr. COONEY. Not at all, except insofar as an individual conversing with me in a personal way; I have often said if we have too much taxation we may have to bring it to the attention of the policyholders as a whole, just as I brought it to the attention of the Rome policyholders as indicated in that letter you just filed.

Mr. GESELL. I wish to introduce the letter I have just read from for the record.

(The letter referred to was marked "Exhibit No. 710" and is included in the appendix on p. 4773.)

Mr. GESELL. May I ask if it has been your practice on occasion to attempt to work out an arrangement which will give legal business to some member of the legislature in order that you may win his friendship?

Mr. COONEY. As a matter of fact, sometimes when we find a good lawyer in the legislature—and I want to interject here that at one time in the early days when we had one general counsel in the city of Atlanta, I went with him several times to various little country towns where we almost invariably lost our case, and as a matter of fact it was suggested to me that we should avoid the criticism that we brought a city slicker to the little country town. You have probably heard that expression. I asked the company to allow me to indicate to our general counsel some counsel locally to be taken into our local cases in order that we might get the local atmosphere. For that I make no apology. When we found a smart lawyer in the legislature and we were unable to show him that our particular proposition was correct and he indicated that he believed it, I have told our general counsel to take that man into any local litigation that we might have. I repeat that, and am going to keep on doing it.

The CHAIRMAN. You say "sometimes when you find a smart lawyer in the legislature."

Mr. COONEY. Yes, sir.

The CHAIRMAN. Do you find a smart lawyer there very often?

Mr. COONEY. When I say "a smart lawyer," I mean one that agrees with me. [Laughter.]

Mr. GESELL. Mr. Cooney, did I understand from your statement that, where you can, you attempt to give that type of employment to members of the legislature because of the other incidental benefits that may accrue?

Mr. COONEY. I don't think I get your question.

Mr. GESELL. Will you tell me whether you wrote the letter which I now hand you?

Mr. COONEY. Yes; that is my signature.

Mr. GESELL. That is a letter addressed by you to Mr. Pierson, vice president or second vice president of the New York Life Insurance Co., dated March 5, 1934, in which you refer to the possible employment of Judge E. M. Davis, of Camilla, in a case known as the *Lannie Thompson case*, which had been in the hands of your

Savannah attorneys, and reading in the last paragraph I notice this [reading from "Exhibit No. 711"]:

He is one of two men to whom the legislature listens with the greatest respect, and has been on the law committee at every session that he has attended. We are going to need him in the legislature to cover the constitutionality of an act depriving municipalities of the right to levy taxes, and that is the principal reason why I would like to see him in this *Lannie Thompson case*, aside from the fact that, as I said in my letter of March 1, I believe that the respect in which he is held will be a material factor in securing a change in the point of view of our appellate court, one of whose judges did me the honor to discuss that situation academically yesterday.

The CHAIRMAN. I note the word "academically."

Mr. COONEY. Senator, there was no case before the court so it had to be academic.

Mr. GESELL. I offer that for the record.

(The letter referred to was marked "Exhibit No. 711" and is included in the appendix on p. 4774.)

Mr. COONEY. One minute, Mr. Gesell, I want to ask you to let me make a statement in regard to that.

The CHAIRMAN. You may make the statement.

Mr. COONEY. There is a disposition all over the country, not only in Georgia but I think more severely there than anywhere else, to disregard entirely the intent of the language of the contract; and not only that but when it comes to a question of law for the judges to sidestep the thing by referring it to the jury as a question of fact. Now Judge Davis—the poor fellow is about dead now—was a very prominent constitutional lawyer, and I repeat what was said in that letter, that the legislature looks to him on a question of constitutional law to give them advice and usually abides by it. That has been so for years. What we want—just a minute, pardon me, you said you would let me explain this—we have in Georgia, I told you that, a premium tax in the State, a premium tax in some of the cities, a county tax on every agent, a city tax everywhere, and it has been my desire, speaking individually, to transfer to the State the entire amount of that taxation and eliminate the possibilities of the cities levying anything further so that we may know, which we don't know now, that when we have paid the one tax we have paid it all.

The CHAIRMAN. In other words, your position is that it was sound policy in order to obtain the objective which you had in mind, namely, to prevent the passage of legislation to which you were opposed, to secure a favorable attitude among influential lawyers who had a reputation with the legislature, by employing them in cases on behalf of the company while the legislature was not in session.

Mr. COONEY. Senator, not with any distinct reference to that particular conclusion, but because of the fact that it is impossible for any man who has taken a point of view that some other man has presented to him, not to feel to a certain extent that that man ought to take another point of view favorable to him.

The CHAIRMAN. I understand, but this is the statement in your letter [reading from "Exhibit No. 711"]:

Judge Davis, I make the statement unreservedly, has the reputation in the legislature of knowing more general constitutional law than all the rest. He is one of the two men to whom the legislature listens with the greatest respect,

and has been on the law committee at every session that he has attended. We are going to need him in the legislature to cover the constitutionality of an act depriving municipalities of the right to levy taxes, and that is the principal reason why I would like to see him in this *Lannie Thompson case*.

Now, there is an explicit statement.

Mr. COONEY. Unquestionably.

The CHAIRMAN. That the principal reason you are bringing him into this *Lannie Thompson case* was not because of his knowledge of the law upon which that case depended but upon the fact that you would need him in the legislature with respect to legislation.

Mr. COONEY. Yes. I think it might be read that way. One minute, will you allow me to go a bit further, Senator?

The CHAIRMAN. Certainly.

Mr. COONEY. This particular *Lannie Thompson case* is one of the most aggravating that I ever had hold of. As a matter of fact, our contract is that a man shall not do any labor for profit. The decision in the court of appeals was that, though we produced evidence with his picture on it applying for work as the city clerk of the town of Glennville, the language is that the public shall generally pass on the claims of political aspirants and if they didn't elect him it was proof positive that he couldn't do the work. We produced a photograph of manual labor to the United States Government and that was treated in the same way.

The CHAIRMAN. I say the "principal reason." Those were the other reasons.

Mr. COONEY. I wanted to get that thing reversed. That is the controlling judgment in Georgia today, and it is very serious.

The CHAIRMAN. Let's read the rest of that sentence [reading from "Exhibit No. 711"]:

That is the principal reason why I would like to see him in this *Lannie Thompson case*, aside from the fact that, as said in my letter of March 1, I believe that the respect in which he is held will be a material factor in securing a change in the point of view of our appellate court, one of whose judges did me the honor to discuss that situation academically yesterday.

I am not interested in the facts respecting the *Lannie Thompson case*; I am just interested in the principle of the retaining of lawyers, which is exemplified by this statement. These are your own words, and they sum up to a statement on your part that lawyers should be retained by insurance companies in the litigation in which those companies may engage, not particularly because of their knowledge of the law in the particular cases but for the use to which you may be able to put their influence and reputation in affecting legislation. Is that not a proper summary of your statement?

Mr. COONEY. Senator, I dislike to disagree with you at all, but I don't think so. I said the principal reason we wanted him was a question of constitutional law in which he was the ablest man in the legislature. The secondary reason was this particular thing where we had had a decision in contradiction to the language of our contract, and is now coded, and I wanted him to try to reverse that under some constitutional provision. I think there is some understanding that the language of a contract—

The CHAIRMAN. I know; but, Mr. Cooney, you are apparently trying to induce Mr. Pierson to retain Mr. Davis.

Mr. COONEY. Yes.

The CHAIRMAN. You wanted to have him retained in the *Lannie Thompson case*, and this is apparently a matter which is still to be acted upon in the future, because you say:

That is the principal reason why I would like to see him in this *Lannie Thompson case*—

and that principal reason has to do solely with the influence that he will bring to bear upon the legislature in matters of legislation. Now, I ask you, Do you believe that that is a proper principle to be followed in retaining attorneys?

Mr. COONEY. Senator, I think that statement is a bit negative instead of positive. As a matter of fact, Judge Davis, you will notice I said because of his constitutional ability, was one of two men they would listen to. Therefore if that doesn't relate and make plain it was because of his ability in constitutional law, and this *Thompson case* involved a question of constitutional law, also the question—

The CHAIRMAN. Now, now, Mr. Cooney, your great virtue on the stand today has been your frankness.

Mr. COONEY. I am trying to be so now.

The CHAIRMAN. We all recognize that you are a man of great ability and of great personal charm, let me say, and I can imagine nobody who would be more influential in dealing with members of the legislature or even with Members of Congress than you. Now, here we have a letter to Mr. Pierson in which you begin [reading from "Exhibit No. 711"]:

Referring to my letter of March 1, marked "strictly personal," and in regard to the possible employment of Judge E. M. Davis, of Camilla, in what we call the *Lannie Thompson case*, originally in the hands of our attorneys, Messrs. Lawton & Cunningham of Savannah—

Now, obviously, you are trying to sell a bill of goods to Mr. Pierson, to use the common phrase, and the bill of goods is "Hire Judge Davis." Then you say to him—this is the reason you should hire Judge Davis [reading further from "Exhibit No. 711"]:

He has the reputation in the legislature of knowing more general constitutional law than all the rest. He is one of two men to whom the legislature listens with the greatest respect, and has been on the law committee at every session that he has attended. We are going to need him in the legislature to cover the constitutionality—

Now are you going to tell me and tell this committee that that was not your purpose to bring him into the *Lannie Thompson case*?

Mr. COONEY. No; I wouldn't say that. That letter says that was my purpose.

The CHAIRMAN. Certainly; therefore I ask you, Mr. Cooney, do you regard that to be a sound principle for the insurance companies to retain lawyers in their litigation because of the influence that they are going to exert in future legislation before the legislature? Do you regard that as a sound principle? Now you can answer that question "yes" or "no."

Mr. COONEY. I don't think I can. I am going to be frank. I want to continue the good opinion you have expressed but I can't get away from the fact that that controlling point in that particular event, rather the two controlling points, both of which involved constitutional questions, and I repeated in that letter, as you remember, that Judge Davis was one of the two able constitutional lawyers, and the

constitutional question about taxation would come up and, as a matter of fact, the use of the words "in the legislature"—if the question had been raised in the legislature with the bill that we did have there to take away the taxing power of the cities and transfer it entirely to the State, he would have argued the constitutionality of it better than anybody else, and with more respect for his opinion. That is all I meant, Senator.

The CHAIRMAN. Of course; that is exactly what you meant.

Mr. COONEY. If your question is, "Do you think that is a proper thing to do?" I am compelled to answer "yes," from my standpoint.

The CHAIRMAN. That is what I thought you would answer, of course, and that is exactly the point that I wanted to bring out. Not only is it true that you regarded that to be a proper method of influencing legislatures, but that is true of the entire national industrial system. It has been the practice of these large corporations that are engaged in interstate and foreign commerce to hire the best lawyers they could find in the particular States in particular litigation for the purpose rather of influencing legislation than of the service that could be performed in particular cases. That is a matter of common knowledge.

Mr. COONEY. I can't argue that with you, sir.

The CHAIRMAN. Of course, you can't argue it because that is the fact, and we all recognize it.

Mr. GESELL. Do you recognize this letter dated February 8, 1933, signed by yourself and addressed to Mr. Creswell, as a letter that you wrote, and do you recognize the attached sheet as a copy of a reply which you received?

Mr. COONEY. Yes, sir.

Mr. GESELL. I should like to read this letter. [Reading from "Exhibit No. 712":]

You wrote me on February 2 in regard to senate bill No. 21, suggesting some amendments.

The easiest way to handle this bill is to kill it. I think that has been done. The First National Bank, of Valdosta, Ga., is the financial backer of the Honorable Nelson, who introduced the bill. I hand you a copy of a telegram that was sent to Senator Nelson yesterday by this bank, at the instance of one of our agents, ex-Senator E. E. Dekle, to wit.

I have an idea that the bill will now be withdrawn.

The telegram to Nelson states [reading further from "Exhibit No. 712"]:

We believe passage of senate bill No. 21 detrimental to business interests of Georgia. Hope you will not urge its passage.

Signed "First National Bank, Valdosta, Ga.," by the president.

You received in response to your letter to Mr. Creswell the following reply from him dated February 10, 1933 [reading further from "Exhibit No. 712"]:

Thanks for your letter of February 8 with regard to the above-numbered bill in which was enclosed a copy of a telegram. We much appreciate this reassuring information and trust that the measure will not now be seriously pressed for passage

I wish to offer this for the record.

The CHAIRMAN. It may be received.

(The documents referred to were marked "Exhibit No. 712" and are included in the appendix on p. 4775.)

MR. GESELL. May I ask you who was chairman of the house committee on insurance in 1933? Was it not Mr. Harold Dobbins?

MR. COONEY. I think so.

MR. GESELL. Am I correct in stating he was a young man appointed at the instance of the insurance men to that position?

MR. COONEY. I wouldn't say "instance." He was appointed on the recommendation of them.

MR. GESELL. Do you recognize this letter signed by you dated March 4, 1933, addressed to Mr. Whitsitt? I call your attention to the portion underlined in red.

MR. COONEY. Yes. That is another very unfortunate word that I didn't expect to have to explain, the "instance." I meant more "recommendation."

MR. GESELL. This letter states:

This young man was appointed at the instance of the insurance men here.

MR. COONEY. We have to let it go. I used that word and I have to stand by it up to a certain point.

MR. GESELL. Do you recall, Mr. Cooney, whether or not in 1933 or in 1934 you paid occupational taxes for Mr. Dobbins by reason of the fact that he was employed as a special agent for your company?

MR. COONEY. No; he wasn't a special agent; he was an ordinary everyday local agent and a poor boy, and my recollection is that he paid it back. It was \$10.

MR. GESELL. He was an agent for the New York Life Insurance Co.; was he not?

MR. COONEY. Yes.

MR. GESELL. Do you recall any of the circumstances surrounding the payment of that tax?

MR. COONEY. I think I had a letter from the acting insurance commissioner of Georgia, didn't I?

MR. GESELL. Do you recognize this letter signed by Mr. Lewis A. Irons, deputy insurance commissioner, to you dated December 1, 1934, as the letter to which you refer?

MR. COONEY. Yes; I do.

MR. GESELL. I would like to call your attention specifically to a portion of that letter. This letter states [reading from "Exhibit No. 713"]:

A few days ago I had a call from Mr. Harold Dobbins, who seems to have an agency contract with you and who is very much concerned about the payment of his occupational tax, although it had been my previous understanding that the company takes care of such matters for its agents. In any event, Mr. Dobbins gave me the impression that he was called on to pay this tax and that by reason of his inability so far to close some business, although he said he had some under way which he expected to close if he could hang on, he found himself unable at this time to pay the tax levied against him, and asked whether or not it could be allowed to run along for a little while unpaid.

I did not take up the above matter with Miss Nagle, although she is in direct charge of, and has supervision in, the matter of occupation tax collection and license fees. My plan was rather to take it up with you, in the thought that under all of the circumstances you might feel that it would be a good "investment" for the company to meet this expense, at least for the time being, in view of the fact that Mr. Dobbins is again scheduled, I understand, for the chairmanship of the insurance committee and his good will might be worth keeping.

Think it over, and destroy this letter when you have its contents in mind.

That is signed by the deputy insurance commissioner of the State of Georgia; is it not?

Mr. COONEY. Yes, sir. I paid that \$10 and he got some business to pay it back. As a matter of fact our company doesn't pay those taxes.

Mr. GESELL. I wish to offer this letter for the record.

The CHAIRMAN. It may be received.

(The letter referred to was marked "Exhibit No. 713" and is included in the appendix on p. 4776.)

The CHAIRMAN. You say the company does not pay it.

Mr. COONEY. No, sir.

Mr. GESELL. You paid this tax in this case.

Mr. COONEY. I paid it myself.

(Whereupon, at 1:05 p. m., a recess was taken until 2:15 p. m. of the same day.)

AFTERNOON SESSION

(The hearing was resumed at 2:35 p. m. upon the expiration of the recess.)

The CHAIRMAN. The committee will please come to order. Mr. Gesell, will you resume where you left off this morning?

Mr. GESELL. Will you return to the stand, Mr. Cooney, please, sir?

Mr. Cooney, I show you a letter addressed to Mr. Robert L. Hogg, assistant general counsel of the Association of Life Insurance Presidents, dated February 12, 1937, signed by yourself, and ask you if you recognize that as a letter written by yourself.

Mr. COONEY. Yes, sir; that is my signature.

Mr. GESELL. Do you also recognize the attached sheet?

Mr. COONEY. Yes, sir; yes, sir.

Mr. GESELL. The letter is dated February 12, 1937, and says [reading from "Exhibit No. 714"]:

Re House bill 179; House bill 180.

Your telegram of yesterday concerning House bill 179.

There were two bills by Daves of Dooley. Daves being one of our examiners. We were promised a hearing by the chairman of the subcommittee. We went to the hearing and remained 2½ hours without the committee meeting. The chairman gave another assurance as to a hearing. Bill 179 apparently was put through in what might be called a secret meeting.

Bill 180, which related to the character of notes which could be taken by life-insurance companies, was withdrawn.

We are after 179. I have an agreement with Mr. Daves, and I expect we can get this one withdrawn. There has been quite considerable pressure put on him. It is a foolish bill.

And approximately 2 or 3 weeks later, under date of March 4, 1937, you again wrote to Mr. Hogg as follows [reading further from "Exhibit No. 714"]:

Bill 179, by Daves of Dooley, was duly and finally killed yesterday. This writer had rather a salty interview with the gentleman, who happens to be examiner for various life-insurance companies. He promised to withdraw the bill first, to amend it afterward. I am getting a copy of the bill as it was killed, and if he did not amend it as he said he would or indicated he would, I do not think he ought to have any more examinations.

I wish to offer these for the record.

The CHAIRMAN. They may be received.

(The letters referred to were marked "Exhibit No. 714" and are included in the appendix on p. 4776.)

Mr. GESELL. When you say Dr. Daves is examiner, you mean a medical examiner for insurance companies?

Mr. COONEY. Yes.

Mr. GESELL. And I take it from the correspondence it was your feeling that if he didn't vote right on this particular legislation, he shouldn't be allowed to receive any further examinations.

Mr. COONEY. I don't think you put that right. That bill absolutely cancelled the contracts we would make with every insured that if he has concealed something from us we can go to the doctors and get them to make statements, and this bill said we couldn't call on any information of that kind unless, after a suit was started, the man himself gave permission to crucify himself and, of course, that couldn't be done. I mean just exactly that.

Mr. GESELL. You meant, when you said that if he did not amend it as he said he would, or indicated he would, "I do not think he ought to have any more examinations"?

Mr. COONEY. I meant just that, sir. As a matter of fact, that bill would have upset everything we have ever done; would have caused a change in our method of doing business; and really would have prevented us from getting the proper information and testimony in case of law suits where a man had absolutely lied over his signature.

Mr. GESELL. What did you tell this fellow when you had a salty interview with him?

Mr. COONEY. That is another unfortunate word, as it looks now. As a matter of fact, I told him that he simply was putting through that bill in order to get fees for examiners to furnish statements with the permission of the man, which has happened.

Mr. GESELL. Did you indicate to him in this salty interview that if he didn't withdraw and amend the bill, you would attempt to see that he didn't get any more examinations?

Mr. COONEY. Yes; I told him that very thing.

Mr. GESELL. Now, Mr. Cooney, what has been your approximate salary during the last 2 or 3 years from the New York Life Insurance Co.?

Mr. COONEY. Well, sir, it has been all the way from \$9,600 a year to \$11,000.

Mr. GESELL. In addition to that, I take it you receive some commissions.

Mr. COONEY. Yes.

Mr. GESELL. Has any proportion of your salary at any time been allocated by the New York Life Insurance Co. under schedule K of its annual statements for lobbying or expenditures?

Mr. COONEY. No, sir. If I would suggest that, they would fire me.

Mr. GESELL. What's that?

Mr. COONEY. If I suggested anything like that the company would fire me. Never a 5-cent piece has been paid me by anybody for lobbying; not a nickel.

Mr. GESELL. Now, let me turn to schedule K. Schedule K of the annual statement of the New York Life Insurance Co. calls for a showing of all expenditures in connection with matters before legislative bodies, officers, or departments of government during the year, does it not?

Mr. COONEY. I think so, sir. As a matter of fact, they don't send us those things any more. We don't get them. They keep those at headquarters.

Mr. GESELL. A considerable portion of your time during some of these legislative sessions was spent on legislative matters, was it not?

Mr. COONEY. I agree with your word from your standpoint—considerable. From my standpoint, not so much, because I had people watching it. I told you about one man that let me know when I had to be there. I didn't have to hang around every minute, as some of them do.

Mr. GESELL. From the correspondence we have of you in connection with your testimony you appear to have been at least busy.

Mr. COONEY. Yes, sir.

Mr. GESELL. Now, I want to know if you have any explanation as to why there does not appear in schedule K of the New York Life Insurance Co. reports any item allocating a proportion of your salary to that type of expenditure?

Mr. COONEY. Because that is done in connection with other work, and to very little detriment of the other work. I tried to tell you when I write letters to agents telling how busy I am that I want them to get busy, too. I want to be an example.

Mr. GESELL. So that during all these years you were engaged in legislative activity in the State of Georgia there has not been, to your knowledge, any reporting of any proportion of your salary or expenses in the schedules K of the New York Life Insurance Co.?

Mr. COONEY. No, sir there has never been any understanding of that kind. If it is there, I don't know it, and I don't know why it is there. I don't think so. Would you mind telling me if there is anything of that kind there?

Mr. GESELL. I can assure you there is not.

Mr. COONEY. That's what I thought I knew.

Mr. GESELL. Do you recognize these three bulletins of the Association of Life Insurance Presidents, dated April 8, 1934; April 2, 1937; and February 19, 1938, as bulletins of the association covering the history of the legislatures in 1935 and 1937 in the State of Georgia, showing which bills were enacted and which were defeated?

Mr. COONEY. I think I recognize these, sir. I think I have copies of them.

Mr. GESELL. Those schedules would indicate that you have been quite successful in your efforts to defeat legislation, would they not?

Mr. COONEY. Yes, sir; thank you.

Mr. GESELL. And that is a fact, is it not?

Mr. COONEY. Yes, sir.

Mr. GESELL. I wish to offer these for the record.

The CHAIRMAN. They may be received.

(The bulletins referred to were marked "Exhibits Nos. 715, 716, and 717" and are included in the appendix on pp. 4777, 4781, and 4783.)

Mr. COONEY. I wish to put in that the legislation we defeated was that which we thought would do harm to policyholders of life-insurance companies.

Mr. GESELL. I have no further questions of Mr. Cooney.

The CHAIRMAN. Do any members of the committee desire to interrogate the witness? [None.] The witness may be excused.

(The witness, Mr. Cooney, was excused.)

Mr. GESELL. Mr. Whitsitt, will you resume the stand?

TESTIMONY OF VINCENT P. WHITSITT, MANAGER AND GENERAL COUNSEL, THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS, NEW YORK CITY—Recalled

SAVINGS-BANK INSURANCE—OPPOSITION OF INSURANCE INTERESTS

Mr. GESELL. Mr. Whitsitt, I wanted to review with you this afternoon the efforts of the Association of Life Insurance Presidents to defeat savings-bank life-insurance bills in the various States. Referring to "Exhibit No. 696,"¹ which was introduced in the record yesterday, reporting on the activities of the association in 1935, I note the statement in your report that—

Six savings-bank life-insurance bills similar to the Massachusetts law failed in five States, as did a constitutional amendment in Missouri to permit creation of savings banks with or without life-insurance departments. * * * The generous and loyal cooperation rendered by executives and agents in the various States in behalf of life-insurance policyholders in warding off unjust impositions of all types is a real tribute to the institution of life insurance.

And again, in "Exhibit No. 695,"² which is a report on the association's activities during the following legislative period, your report states:

Nine savings-bank life-insurance bills failed in seven States—Colorado, Connecticut, Missouri, New York, Ohio, Pennsylvania, Rhode Island; none enacted. * * * The favorable outcome is attributable to the cooperation of life-insurance men, both home office and field, wholly typical of the institution of life insurance.

From those two exhibits I gather that it has been the policy of the association to oppose savings-bank life insurance under certain circumstances.

Mr. WHITSITT. You are asking me for the policy of the association?

Mr. GESELL. I am asking you, first, whether it has been the policy of the association to oppose savings-bank life insurance under certain circumstances.

Mr. WHITSITT. I can't better answer that question than by reading a resolution adopted by our executive committee on January 9, 1931. It is an excerpt from the minutes which determine our policy:

The manager brought to the attention of the meeting correspondence with Massachusetts companies regarding the operation of the Massachusetts savings-bank plan of life insurance, and of the threatened extension of that plan to other States. All of those present took part in the ensuing discussion. It was revealed that for many years in Massachusetts the State had paid the expenses of the division of savings-bank life insurance, which has prepared the plans and supervised the operation of this business, and that the savings banks engaged in the life-insurance business are not subjected to the same restrictions nor to the same taxation as legal-reserve life-insurance companies doing business in that State.

Upon motion, duly seconded and carried by unanimous vote, it was resolved that the association should hereafter oppose legislation authorizing savings banks to engage in the life-insurance business, wherever any form of State subsidy is provided and wherever such savings banks engaged in the life-insurance business are not subjected to the same restrictions and burdens as are imposed upon legal-reserve life-insurance companies. It was emphasized that no objection was expressed to savings banks engaging in the life-insurance business on equal footing with the existing legal-reserve life-insurance companies. The real objections were to the granting of some forms of State subsidy to such enterprises, to the unfairness of requiring policyholders in life-insurance companies whose pre-

¹ See appendix, p. 4755.

² See appendix, p. 4754.

miums are taxed for State purposes thereby to pay any portion of the expenses incident to the conduct through another agency of a life-insurance business whose policyholders would not be subject to the same taxation, and to the failure to subject savings-bank life insurance to the same regulatory laws provided for the protection of policyholders in existing legal-reserve companies.

Mr. GESELL. I take it from what you have read that the answer to my question is "yes," that you did oppose savings-bank life insurance under certain circumstances.

Mr. WHITSITT. Under certain circumstances; and may I explain that? It is in the minutes I have read. But briefly, it has been felt, out of fairness, that no State subsidy should be granted to a competing private enterprise. In other words, we only oppose the savings bank life-insurance bill where there is some form of State subsidy, and preferential taxation. Under the so-called Massachusetts plan, for 20 years—it is not true now—or approximately thereabouts the State had a form of subsidy to the savings banks by furnishing through an office in the State capitol, whose letterheads carried the title of the Statehouse, actuarial advice, preparation of policy forms, computation of premiums, the computation of dividends, surrender values, and such other actuarial advice as was necessary, and these forms were furnished to the various banks.

Also, in Massachusetts, the life-insurance departments of the savings banks were subjected to the same type of taxation which the savings banks were, which, as a net result, computed in dollars and cents, was less than the tax paid by the life-insurance companies. For these reasons it was felt that that type of bill in other States would be unfair to existing private enterprises, as exemplified in life insurance.

There are a number of instances—several—where we have not opposed such bills. In 1932 there was a bill introduced in the New York Legislature which provided for life-insurance departments in savings banks subjected substantially to the same requirements, to the same taxation, and no State subsidy. That bill we did not oppose in 1932.

In 1938 there was a bill introduced which also met our objections. As a matter of fact, the present New York savings-bank life-insurance law was not opposed by our association.

Mr. GESELL. It is the only one which has ever passed since the Massachusetts law was enacted, is it not?

Mr. WHITSITT. That is correct. The present New York savings-bank life-insurance law provides for a subsidy for the first year of operation, but after the first year of operation the division or bureau of savings bank life insurance in the insurance department, which furnishes all of this actuarial advice I described in Massachusetts, will assess against the various savings banks that do a life-insurance business their pro rata portion of the expenses of that bureau.

There is a subsidy for 1 year, but beginning next year, unless the legislature extends the subsidy, they will stand on their own feet.

Also, the New York bill, when introduced, provided for equal taxation, the same taxation as domestic legal reserve life-insurance companies. For that reason, also, we did not oppose that bill.

Mr. GESELL. Well then, except for the New York bill, which went through, we have reported in the exhibits already in evidence the opposition of the association to some 15 measures in various States, have we not?

Mr. WHITSITT. Quite a number, a number in New York prior to 1932, and some since, but not the ones that complied with our objections. In other words, we had made these objections before the various committees at various times, and what happened apparently was that the proponents of the bill in New York, in 1938, met our objections.

Mr. GESELL. And that is the only bill that passed?

Mr. WHITSITT. That is the only one that has been enacted since the Massachusetts law.

Mr. GESELL. Do you recognize this letter, dated June 10, 1935, as a copy of a letter written by Mr. Creswell, statistician of the association, to Mr. William Kingsley, vice-president of the Penn Mutual, reviewing some of the experience in savings bank life insurance prior to that time?

Mr. WHITSITT. I believe that is correct, yes, sir.

Mr. GESELL. This letter would indicate that prior to 1931 there had been two bills introduced in New York in 1909 and two bills introduced in 1910 in New York, one in Rhode Island in 1910, one in New Hampshire in 1913, one in North Carolina in 1929. Do I understand that the association opposed the enactment of those bills?

Mr. WHITSITT. Prior to '31?

Mr. GESELL. Yes.

Mr. WHITSITT. Not to my knowledge. I think not. That is indicated by these minutes that I read a few moments ago, at which the question came up as to what attitude we should take, and that was dated January 9, 1931.

Mr. GESELL. Was that not simply a reviewal of the policy of the association prior to that time, and a slight modification of it?

Mr. WHITSITT. Well, my recollection back in those years is not entirely clear, but so far as I know we did not. I would be glad to review our files to see. My best recollection is that we didn't before '31. It is possible we did.

Mr. GESELL. This is for the record.

The CHAIRMAN. The exhibit may be received.

(The letter referred to was marked "Exhibit No. 718" and is included in the appendix on p. 4785.)

Mr. GESELL. Now I want to understand one thing rather clearly at this stage. Am I correct in saying that the opposition to savings bank life insurance by the association has been by and large motivated by a feeling that it does not want any competing insurance business to develop under some form of State subsidy?

Mr. WHITSITT. Our executive committee feels that it would prefer not to compete with State subsidized organizations. It has no objection to any savings bank wishing to write life insurance if it will write on an equal basis, equal fee, the same taxes, and stand on its own feet, the same as a life insurance company. In other words, we wouldn't oppose the organization's incorporation of a new life insurance company. It is a question of a State subsidy and preferential taxation.

Mr. HENDERSON. Mr. Gesell, have you finished with this letter to Mr. Kingsley?

Mr. GESELL. Yes.

Mr. HENDERSON. I want to ask a question, if I may. I notice that it records a Missouri proposal for the form of a constitutional amendment. Did your association oppose that?

Mr. WHITSITT. We did in '37. I can't say offhand whether we did in '35 or not.

Mr. HENDERSON. Do you recall what you did in your opposition? I mean, did you work through your locals?

Mr. WHITSITT. Missouri is one of the States that I referred to yesterday where we have no member company and no general agent or manager available for legislative contact work in that State. We employ counsel.

Mr. HENDERSON. Who is your counsel?

Mr. WHITSITT. James C. Jones, Hocker, Gladney and Grand, those are the names. They are in St. Louis.

Mr. HENDERSON. They are in St. Louis. Did they act in the name of the association, or did they act in the name of the —

Mr. WHITSITT (interposing). They represent our association.

Mr. HENDERSON. You employed no underwriters' association there?

Mr. WHITSITT. I suppose there are times—and I rather think there have been times—when this law firm would cooperate with the local underwriters, depending upon the type of the bill and the pressure behind it.

Mr. HENDERSON. Something on the same order as Mr. Hogg mentioned?

Mr. WHITSITT. Depending entirely on the circumstances at the time.

Mr. GESELL. In reference to the Missouri activity, do you recognize this telegram to Mr. Jones dated February 24, 1937, signed by Mr. B. E. Shepherd, the telegram sent by a representative of the association to Mr. Jones at that time?

Mr. WHITSITT. Oh, yes; yes. That was in 1937. That was when the constitutional amendment and the bill was pending at that time, I believe.

Mr. GESELL. This telegram states [reading from "Exhibit No. 719"]:

As promised in telephone conversation this morning, have arranged with President Sears of Columbian National to wire Dyer expressing adverse views House Resolution 11 while presuming Dyers opposition. Massachusetts Mutual air-mailing letter St. Louis representative and Scott in Kansas City also expressing adverse views. New England Mutual wiring similarly to St. Louis agent today. John Hancock writing Cammack to cooperate with you, as it has already expressed opposition this bill. Still working on State Mutual. Sending air mail one copy DeGroat's recent analysis Massachusetts plan, distributed by National Association Life Underwriters. Can obtain additional copies this pamphlet or other material similar to that sent 2 years ago if you wish. Referring view of Crocker, former president John Hancock, think, perhaps he may have said savings bank insurance not in competition with industrial insurance. This because former written in larger amounts so as to be in competition ordinary insurance, and not because Crocker favored Massachusetts system. On contrary, he was violently opposed. Think Dyer must have misconstrued his meaning. Will be glad to take further action if such desirable.

I wish to offer this for the record.

The CHAIRMAN. It may be received.

(The communication referred to was marked "Exhibit No. 719" and is included in the appendix on p. 4785.)

Mr. GESELL. Now, do you recognize this letter which I now show you dated February 25, 1937, signed by Mr. Jones; addressed to the Association of Life Insurance Presidents, a letter which was received by the association?

Mr. WHITSITT. May I glance through it?

Mr. GESELL. Certainly.

Mr. WHITSITT. Yes.

Mr. GESELL. Referring to the entire file in your hand, do you recognize that as the correspondence from the association's offices?

Mr. WHITSITT. Yes.

Mr. GESELL. I notice Mr. Jones says in his letter to you of February 25, in discussing savings bank life insurance bill at that time [reading from "Exhibit No. 720"]:

Some of the smaller banks are reported to be distinctly in favor of H. R. 201, which provides for the organization of savings banks, and favoring this, they also favor H. R. 11, which would authorize savings banks to write insurance.

Now when the agent, apathetic in the sense above adverted to, ascertains that his friend, the small banker, favors these measures, he naturally becomes more apathetic because he fails to appreciate what he is building up against himself, as indicated in De Groat's pamphlet, particularly at page 24.

In response to that letter in which Mr. Jones suggested that material be sent to the agents, Mr. Shepherd wired Mr. Jones on February 26 [reading from "Exhibit No. 720"]:

Interested in plan you suggest for educating agents on savings bank insurance but wish time to consider fully. In view difficulty securing results at present session by this method suggest you might want to consider immediate distribution DeGroat pamphlet by yourself in St. Louis and Scott through underwriters association if sufficiently well organized and if you think this would reach right persons. If this appeals to you wire number of copies desired by yourself and Scott.

And Mr. Jones replied in his letter of February 25 to the association partly as follows [reading further from "Exhibit No. 720"]:

The telegrams which were sent to the agents of the various companies have, I think, materially changed the attitude of most if not all of them, and, from being apathetic, I think they have become, or will by the time of the hearing, distinctly cooperative in opposing this resolution.

I wish to offer this file for the record.

The CHAIRMAN. The file may be received.

(The documents referred to were marked "Exhibit No. 720" and are included in the appendix on p. 4786.)

Mr. HENDERSON. Is that the constitutional amendment that was proposed? Does that plainly indicate that there was to be a State subsidy in connection with it?

Mr. WHITSITT. There was also a bill, House bill 409, pending jointly with concurrent resolution 11, which did follow the Massachusetts plan.

Mr. HENDERSON. But the constitutional amendment—

Mr. WHITSITT (interposing). The amendment itself provided for the organization of mutual savings banks with or without life insurance departments. We would have been satisfied if they had stricken out that part with reference to life insurance, but there was pending at the same time a bill along the line of the Massachusetts subsidy plan.

Mr. HENDERSON. So you joined in the opposition to an amendment which would have given permission to these banks under proper authorization from the State legislature to do a life-insurance business?

Mr. WHITSITT. That is right. However, if they had amended the constitutional amendment, leaving out reference to life-insurance departments, that would have answered the problem regarding the pending bill. Do I make myself clear?

Mr. GESELL. If the amendment had gone through, Mr. Whitsitt, would it not be a fact that banks could have written savings-bank life insurance without a subsidy?

Mr. WHITSITT. There was at that time pending a bill providing for the institution of the Massachusetts plan.

Mr. GESELL. But that doesn't answer my question, Mr. Whitsitt. I said if the constitutional amendment went through, would that not have enabled banks to write savings bank life insurance without any subsidy?

Mr. WHITSITT. If this bill had been defeated and a substitute bill along the present New York plan, but up to that time, to the best of my knowledge, we had never seen a bill without some subsidy.

Mr. GESELL. Now will you stick to the constitutional amendment which I am asking you about, Mr. Whitsitt? My question was if the constitutional amendment went through it would have authorized banks to write savings-bank life insurance. They could have written savings-bank life insurance without having received any subsidy, provided the bill itself was defeated?

Mr. WHITSITT. They could; that would depend entirely upon the legislation which was enacted to carry into effect the constitutional amendment.

Mr. GESELL. Yet I understand from Mr. Henderson's questioning and your replies that you opposed the constitutional amendment as well as the bill itself?

Mr. WHITSITT. They were coupled together; it was all one program.

Mr. GESELL. All one program from your point of view but two separate pieces of legislation?

Mr. WHITSITT. That is right.

Mr. GESELL. Now I want to call your attention to a letter dated March 17, 1937, addressed to the association, signed by Mr. Jones, and accompanying sheets of paper entitled "Arguments for Industrial Agents." and ask you if these do not come from the files of the Association of Life Insurance Presidents?

Mr. WHITSITT. Apparently; the letter does definitely. Now these sheets attached, so far as I know—how they got in I don't know; I really think Mr. Jones drafted those for possible use. Whether he ever used them I do not know.

Mr. GESELL. They are referred to in the body of the letter, are they not?

Mr. WHITSITT. Let me review the letter.

Mr. GESELL. Certainly. I am referring, I think, to the last paragraph where he mentions that he has prepared arguments for distribution.

Mr. WHITSITT. Yes, apparently he had appended them.

Mr. GESELL. So far as you know he had handed them the attached documents for arguments for industrial agents?

Mr. WHITSITT. I don't know; the assumption would be from the letter that that is correct, but I wouldn't know from my own personal knowledge.

Mr. GESELL. Is it your understanding that these arguments for agents were prepared by Mr. Jones for the use of the agents?

Mr. WHITSITT. So far as I know they were.

Mr. GESELL. They come from the files of the association, do they not?

Mr. WHITSITT. Yes; apparently he either sent them or left them in our office.

Mr. GESELL. The letter states in part as follows [reading from "Exhibit No. 721"]:

I talked to about 40 of the insurance agents yesterday at a luncheon of the Managers' Association and explained to them what our course was, handing them a document prepared for their use with the section relating to bankers somewhat modified. These managers are now engaged in picking the men best available for contact purposes, but they are not to be turned loose until I give them word, which will not be until this measure gets over into the Senate, which will probably be sometime next week.

I would like to offer the letter and accompanying documents for the record.

The CHAIRMAN. The exhibit may be received.

(The documents referred to were marked "Exhibit No. 721" and are included in the appendix on p. 4787.)

Mr. GESELL. Now the bill was defeated in Missouri; both the constitutional amendment and the bill itself?

Mr. WHITSITT. I believe they failed in passing; but by what process of defeating I do not know.

Mr. GESELL. They didn't pass?

Mr. WHITSITT. They did not pass.

Mr. GESELL. Now you refer, the letter refers, to the fact that copies of a pamphlet written by Mr. De Groat—G-r-o-a-t—were sent to Mr. Jones to assist him in his work in opposing this legislation?

Mr. WHITSITT. That is right.

Mr. GESELL. Is this the pamphlet that I show you?

Mr. WHITSITT. I think so. I am sure it is, unless there has been some later edition, and this is an earlier edition; that is the pamphlet.

Mr. GESELL. Is that the pamphlet that has been used frequently by the association in acquainting agents and managers and other persons with the nature of savings bank life insurance?

Mr. WHITSITT. We have used it from time to time; the National Association of Life Underwriters, I believe secured quite a supply of those pamphlets. Mr. De Groat is a general agent of the Mutual Benefit in Boston and has been there for a good many years, since the inception of savings bank life insurance, and has given great study to it, and it is rather a hobby of his to write articles about it.

Mr. GESELL. And the association has, after examining this pamphlet, adopted it for its use and distributed it from time to time when people wanted information about savings bank life insurance?

Mr. WHITSITT. That is quite right. We have received requests for all sorts of information on all sorts of subjects, directly or indirectly connected with life insurance.

Mr. HENDERSON. Mr. Gesell, are you going to cover this argument for industrial agents?

Mr. GESELL. I intended to cover some of it tomorrow, Mr. Henderson, with a subsequent witness. I am afraid we won't have time today.

Mr. HENDERSON. Will you be covering this part, part 6 on Missouri's insurance record, where it says:

First, are we going to add to or lessen the occasion for further scandal by encouraging small banks to go into the life insurance business? I think the answer must be that we will increase the scandal. For if there is any one thing true in business life it is that men interested in the banking business make a failure of trying to run an insurance company.

Are you going to cover that?

Mr. GESELL. I was going to cover that argument, yes, tomorrow. I have no objection to it being covered now.

Mr. HENDERSON. I want to make sure that this thing is covered.

Mr. GESELL. I have no objection.

Mr. HENDERSON. I just don't want to miss it.

Mr. GESELL. I should like to offer the De Groat pamphlet for the record. We will have occasion to discuss the contents of this pamphlet on several occasions.

The CHAIRMAN. Do you want it to appear in the record?

Mr. GESELL. It is not necessary for it to appear if it is an exhibit; the portions I am interested in we can discuss specifically.

The CHAIRMAN. Whatever you say. Of course, I haven't read the pamphlet.

Mr. GESELL. It is rather lengthy, I am afraid, for the written record.

The CHAIRMAN. Unless it is necessary to put it in the printed record shall we just file it with the committee?¹

Mr. GESELL. That is perfectly all right.

The CHAIRMAN. And if there are any sections of it that you want they should be read at the proper time.

Mr. GESELL. That will be the procedure.

The CHAIRMAN. Then we will leave it in your possession until this phase of the record is concluded.

Mr. GESELL. It has been admitted then as an exhibit and shall we give it a number?

(The pamphlet referred to was marked "Exhibit No. 722" and is included in the appendix on p. 4790.)

Mr. GESELL. Now the association opposed savings banks legislation in the State of Pennsylvania, did it not?

Mr. WHITSITT. Yes; I think twice. I am not sure of the number of times; once in 1935 or 1937 and there was a bill there this year.

Mr. GESELL. Now I would like to call your attention to a letter which you wrote to Mr. Guy A. Smith, dated April 29, 1937, and ask you whether you recognize that as a copy of your letter, and the attached paper as a reply which was received thereto?

Mr. WHITSITT. Right.

Mr. GESELL. This letter from Mr. Smith states—it was written by you, was it not?

Mr. WHITSITT. Yes.

Mr. GESELL (reading from "Exhibit No. 723"):

In connection with House bill No. 883 now pending in the Pennsylvania Legislature, authorizing savings banks to issue life insurance, I am sending to

¹ The committee subsequently decided to print the De Groat pamphlet, see *infra*, p. 4426.

you today 25 copies each of the following material on the subject: (1) Printed pamphlet on savings bank life insurance by Mr. Floyd E. DeGroat, of Boston; (2) mimeographed copy of a statement on the same subject by Hon. M. Joseph Cummings, chief of the division of banking and insurance of Rhode Island.

This material is not intended for general distribution, but is sent to you for the personal information of yourself and the leading members of your association, so that you may be fully informed on the experience of this system in Massachusetts, the only State which has ever adopted such a plan.

Trusting this will be helpful to you, I am—

And Mr. Smith's reply to you, dated May 3, 1937, which you have also identified, states (reading further from "Exhibit No. 723"):

Upon receipt of your April 29 letter, with publication from the Hon. M. Joseph Cummings, and Mr. Floyd E. DeGroat, I am pleased to inform you that the Wilkes-Barre Association of Life Underwriters, which represents all the "old line" companies, and which are approximately 500 in number, were very much in accord with your letter, and immediately contacted all State senators, and each member of the house of representatives, including the chairman of the insurance committee, and protested strongly against House bill No. 883.

Undoubtedly, such an avalanche of telegrams and personal calls has never before been received by these individuals. We have had definite assurance from them that the bill will be strongly opposed.

I write this word that you may know your letters have not dropped by the wayside.

We are wholehearted in guarding the fair name of the institution of life insurance and strongly oppose any encroachment such as this bill No. 883 represents.

I wish to offer these for the record.

The CHAIRMAN. They may be received.

(The letters referred to were marked "Exhibit No. 723" and are included in the appendix on p. 4801.)

Mr. HENDERSON. This letter you wrote to Mr. Smith in which you said you sent some material for personal information to members in your association. As I understood, when your association was created the minutes of the first meeting, I think the fourth item,¹ stated that it "was to consider carefully measures that may be introduced from time to time in legislative bodies, with a view to ascertaining and publicly presenting the grounds which may exist for opposing or advocating the proposed legislation." You have gotten away from that a bit, haven't you?

Mr. WHITSITT. No; I wouldn't say so. We make no secret of our opposition whatsoever.

Mr. HENDERSON. Not the opposition; it says publicly presenting the grounds which may exist. That is a little bit different from just the opposition, isn't it?

Mr. WHITSITT. It all depends by what you mean publicly. In other words, we made no secret of our opposition—whatsoever and as has been stated several times, one of the best ways to approach a member is to see him personally and this was for the education of the agents; inform them upon the objections to the bill so that they might be well informed and in turn pass that information to members.

Mr. HENDERSON. As I understood it, this meeting was called as a result of the Armstrong investigation, wasn't it?

Mr. WHITSITT. You mean our association?

¹ Previously introduced as "Exhibit No. 690." See appendix, p. 4744, at p. 4745.

Mr. HENDERSON. Yes.

Mr. WHITSITT. As I stated yesterday, it was a byproduct or an outgrowth somewhat of that.

Mr. HENDERSON. The Armstrong committee, Mr. Gesell, was pretty strong against lobbying, wasn't it?

Mr. GESELL. Yes; there is a section in volume 10 of the report which discusses the lobbying practices of the companies as revealed at that time. I have a copy here if it is thought desirable to have it for the record.

Mr. HOGG. They used the word "clandestine" in the report of the Armstrong committee.

Mr. WHITSITT. That same report also suggests the company should communicate with all of their policyholders.

Mr. HENDERSON. The Armstrong report?

Mr. WHITSITT. Yes, sir; it suggests that.

Mr. GESELL. I have a copy of it here.

Mr. HOGG. Page 302.

Mr. GESELL. If it is read it should all be read or not read.

The CHAIRMAN. Let us get it in the record.

Mr. HENDERSON. Is it very long, Mr. Gesell?

Mr. GESELL. It is three and a half single space.

The CHAIRMAN. As a matter of fact, I think you can probably summarize what it is. We all know what the Armstrong report was, and what it was intended to prevent. I don't assume that it was intended by that report to prevent insurance companies from making proper representation to legislative bodies.

Mr. GESELL. The report is quite specific on the fact that they should be permitted to engage in lobbying activities but it attempts to define what the scope of those activities should be and how they should be reported. I think it might be just as well to offer the entire section of the report for the record.

The CHAIRMAN. Suppose we do that. It may be printed.

(The excerpt of the Armstrong report referred to was marked "Exhibit No. 724" and is included in the appendix on p. 4802.)

Mr. HOGG. The Armstrong committee prepared a bill carrying into effect this very recommendation and that is in the report.

Mr. GESELL. Was the bill passed?

Mr. HOGG. Oh, yes.

The CHAIRMAN. By the Legislature of New York?

Mr. GESELL. You will find it was amended several times. I would like to offer the report for the record.

The CHAIRMAN. The report was received. Can you state whether or not the New York statute was adopted in Florida?

Mr. HOGG. I don't know.

The CHAIRMAN. How about Georgia?

Mr. HOGG. I think they have a very stringent one in Georgia.

Mr. HENDERSON. In Georgia they get a little bit away from the public presentation, don't they, Mr. Whitsitt? Could I get you to admit that they get away?

Mr. WHITSITT. Obviously, as I stated yesterday, you can't secure a committee hearing; a bill will be introduced—

Mr. HENDERSON (interposing). I asked you a simple question and you give me an explanation of something you said yesterday. In

Georgia they do get a little bit away from the public presentation of the grounds?

Mr. WHITSITT. So far as I know, Mr. Cooney has never made a secret of his opposition to objectionable bills to life insurance.

Mr. HENDERSON. I still consider that you do better than any witness who has been before us in not responding to a direct question, Mr. Whitsitt.

Mr. WHITSITT. I don't intend to be evasive, I am sure.

Mr. HENDERSON. You may not, but you certainly unconsciously achieve it.

Mr. GESELL. Do you have any further questions, Mr. Henderson?

Mr. HENDERSON. No.

Mr. GESELL. Now may I ask Mr. Whitsitt whether this Pennsylvania bill which we have just been considering in the previous exhibit¹ was a bill which provided for a State subsidy?

Mr. WHITSITT. That is my understanding.

Mr. GESELL. Is it not a fact, however, that the bill as finally reported out contained provision for reimbursement of the State for expenses incurred in behalf of the proposed savings-bank life-insurance department?

Mr. WHITSITT. I don't recall. Possibly there was such an amendment made.

Mr. GESELL. Is it the position of the association that it will oppose savings-bank life insurance, even where the statute provides for a reimbursement over a period of time of the subsidy involved?

Mr. WHITSITT. It is our association policy not to oppose them where there is reimbursement to the State. If there was an amendment, it was quite possible that the agents who were most heavily hit by these bills pursued a policy of opposition after the amendment. I don't recall the details.

Mr. GESELL. Now, there have been savings-bank life-insurance bills introduced on several occasions in the State of Rhode Island; have there not?

Mr. WHITSITT. Yes, sir; at times.

Mr. GESELL. Has the association opposed legislation there regularly?

Mr. WHITSITT. On several occasions.

Mr. GESELL. I want to ask you whether you recognize this letter which I am about to show you, addressed to Mr. Creswell, from Mr. White, Clinton C. White, of the Puritan Life Insurance Co. of Rhode Island, dated March 22, 1935. It is a letter from the files of your association.

Mr. WHITSITT. Quite right.

Mr. GESELL. This letter relates to House bill No. 793, savings-bank insurance. The letter states [reading from "Exhibit No. 725"]:

This bill, I feel, is a serious one to life-insurance interests, and has taken considerable time. From all I can ascertain, the following is the situation: The bill still rests in the House Finance Committee. Fortunately a member of this committee is Mr. Charles Brown, general agent of the Columbian National, and he naturally is opposed to the bill. Today I spent an hour with him and went through the bill very much in detail, and I am sure that he will do everything possible to hold it back. This noon we had a meeting of the general agents of Rhode Island and at their request I reviewed the bill with them

¹ See "Exhibit No. 723," appendix, p. 4801.

and presented the objections. Very fortunately, Mr. Tracy, the president of the Massachusetts Life Underwriters, was present, and he gave a very fine exposition of the experience in Massachusetts with savings bank insurance, so that the general agents have a thorough understanding of the Rhode Island bill and recognize as a result of Mr. Tracy's remarks, the evils and misrepresentations which will probably follow if the bill is made law. They, however, will not raise too much dust unless it is necessary. Too much opposition with this particular legislature might give the bill undue importance.

I would like to offer this letter in its entirety for the record.

The CHAIRMAN. The letter may be received.

(The letter referred to was marked "Exhibit No. 725" and is included in the appendix on p. 4804.)

Mr. GESELL. That bill was defeated, was it not?

Mr. WHITSITT. It must have been. They do not have it in Rhode Island.

Mr. GESELL. There was another bill introduced in the following year, was there not—the following legislative year?

Mr. WHITSITT. If your record shows so, I assume you are correct. It has been there several times.

Mr. GESELL. I want to ask you whether you recognize this letter dated April 10, 1937, addressed to the Association of Life Insurance Presidents, signed by Mr. White, as a letter from the files of the association.

Mr. WHITSITT. Quite right.

Mr. GESELL. This letter states in part as follows [reading from "Exhibit No. 726"]:

As I informed you under date of March 17, I do not anticipate the enactment of this legislation permitting the savings banks of Rhode Island to engage in the life-insurance business. There is, however, more pressure being brought upon the Governor this year than previously, and I think there is a feeling here that in another year the pressure will be even greater. I appreciate very much the material which you have sent to me as it was helpful in formulating the necessary facts in opposition. Will you pardon me for making a suggestion along a line of thought which to me is fundamental in this whole situation. Let me make the mere suggestion and in your office with your expert ability you can develop it and incorporate it if you see fit in future memoranda.

It seems to me that greater emphasis should be laid upon the fact that by this legislation certain private institutions are granted special privileges which are not granted to the existing private institutions engaged in the same business. I believe that this simple thought can be developed so that it is an unanswerable item. If the State itself were to engage in the life-insurance business we would expect the State to avail itself of certain inherent rights. This would be entirely consistent with the prevailing social tendencies of the day, but when a State grants special privileges to one private institution and exempts that private institution from established requirements and regulations which control competitive private institutions, there is involved a fundamental principle which I believe would convince any honest citizen.

Then, skipping a bit of the letter, it states:

Pressure was brought upon our Governor for favorable action on the savings bank life insurance legislation, and he naturally turned to the chief of the division of banking and insurance for information. I gave to the latter the material which you so kindly sent to me accompanied by a letter, a copy of which I enclose. I am also enclosing copy of the report which Mr. Cummings, chief of the division of banking and insurance, has made. This has been sent by him to each general agent and to some of the insurance commissioners, so that it is not now confidential.

I wish to offer that letter for the record.

Mr. WHITSITT. I may say that Mr. White is an officer of the Puritan Life Insurance Co., one of our member companies in Rhode Island.

The CHAIRMAN. The letter may be received.

(The letter referred to was marked "Exhibit No. 726" and is included in the appendix on p. 4805.)

Mr. GESELL. Do you know what material it was that you sent to Mr. White? I assume it was the De Groat pamphlet.

Mr. WHITSITT. I couldn't recall offhand. If that were up today I would probably send that pamphlet and possibly some memoranda we have prepared in our own offices for similar purposes. We have prepared a number of memoranda ourselves attempting to brief the chief arguments that we find available for use in such circumstances.

Mr. GESELL. The bill was again killed in 1937, was it not?

Mr. WHITSITT. It was.

Mr. GESELL. Do you recall this as a letter written to you by Mr. White on that occasion?

Mr. WHITSITT. Yes; quite.

Mr. GESELL (reading from "Exhibit No. 727"):

I am particularly pleased that we were able to defeat the savings bank life insurance bill. As I stated to Mr. Crane previously, I am quite certain that there will be an increased effort on the part of the proponents of this legislation next year. I certainly trust that you will be able to defeat its adoption in Pennsylvania and Connecticut, for if adopted elsewhere it will surely influence its acceptance in other States.

I wish to offer that for the record.

The CHAIRMAN. It may be received.

(The letter referred to was marked "Exhibit No. 727" and is included in the appendix on p. 4806.)

The CHAIRMAN. Did this letter of Mr. White, Mr. Whitsitt, represent the point of view of the Puritan Life Insurance Co. and the point of view of the Association of Life Insurance Presidents?

Mr. WHITSITT. Well, of course, it primarily represents the personal point of view of Mr. White.

The CHAIRMAN. Naturally; yes, of course.

Mr. WHITSITT. And I assume it represents the point of view of the Puritan Life, since it is written on their stationery.

The CHAIRMAN. This letter didn't come to you?

Mr. WHITSITT. It is one of my associates to whom it is addressed.

The CHAIRMAN. It is addressed to the association and it is noted for the attention of Mr. Crane.

Mr. WHITSITT. Yes.

The CHAIRMAN. So it didn't come to you personally?

Mr. WHITSITT. That is right.

The CHAIRMAN. I was very much interested in his statement [reading from "Exhibit No. 726"]:

If the State itself were to engage in the life-insurance business, we would expect the State to avail itself of certain inherent rights. That would be entirely consistent with the prevailing social tendencies of the day.

I was just wondering whether that expression on the part of Mr. White indicated a feeling by himself and those with whom he was associated that the entry of the States into the insurance field might not be objectionable.

Mr. WHITSITT. I couldn't put that down as an expression of the association at all.

Mr. GESELL. Did the association adopt those arguments that he suggested?

Mr. WHITSITT. My recollection is that they are more or less a rephrasing of arguments we had used before emphasizing the objectionable features of the State subsidy to private enterprise. My recollection is that it is a rephrasing.

The CHAIRMAN. That particular sentence I quoted was merely a passing remark and doesn't enter into the merits of that controversy.

Mr. HENDERSON. In this letter of Mr. White's to the association I notice that pressure was brought upon the Governor for favorable action. He naturally turned to the chief of the division of banking and insurance [reading from "Exhibit No. 726"]:

I gave to the latter the material which you so kindly sent to me, accompanied by a letter, a copy of which I enclose. I am enclosing a copy of the report which Mr. Cummings, chief of the division of banking and insurance, has made. This has been sent by him to each general agent and to some of the insurance commissioners, so that it is now not confidential.

In other words, you sent some material to Mr. White, or Mr. Crane did. Mr. White gave it to Mr. Cummings, the State officer.

Mr. WHITSITT. Who asked him for the information.

Mr. HENDERSON. I would like to finish the sentence.

Mr. WHITSITT. I beg your pardon.

Mr. HENDERSON. Mr. Crane sent some material to Mr. White, of the Puritan Life. Mr. White gave it to Mr. Cummings, who had requested it, I gather. Mr. Cummings then made a report to the Governor, as chief of the division of banking and insurance. Then he gave a copy of that to Mr. White, and then he sent it to the various insurance commissioners. What I am getting at is, is that the mimeographed copy of the statement which you sent to Guy Smith?

Mr. WHITSITT. Yes, sir; we received some copies of that and reproduced it.

Mr. HENDERSON. So in effect this has been sort of an adaptation of your idea, as has been suggested, in that statement, and it goes out now under the imprimatur of the chief of the division of banking.

Mr. WHITSITT. As I understand it, Mr. Cummings gave mature consideration of all this material and came to the conclusion that he did not favor savings bank life insurance for the State of Rhode Island.

Mr. HENDERSON. I mean that is how it originated.

Mr. WHITSITT. That is right.

Mr. GESELL. I have a copy of that report here which I can offer for the record under the same restrictions that were involved when we offered the DeGroat pamphlet. I think it would be well to have it in the record.¹ Do you recognize this as the mimeographed statement that you have distributed?

Mr. WHITSITT. Yes, sir; on various occasions.

The CHAIRMAN. The exhibit may be numbered and filed for the use of the committee.¹

¹ The committee subsequently decided to print the Cummings report, see *infra*, p. 4433.

(The report referred to was marked "Exhibit No. 728" and is included in the appendix on p. 4806.)

Mr. GESELL. The association then opposed savings-bank life insurance in Rhode Island in 1938, did it not?

Mr. WHITSITT. That is my recollection.

Mr. GESELL. Is this a memorandum from the files of the association which I show you now?

Mr. WHITSITT. Yes, sir.

Mr. GESELL. This memorandum relates to "Rhode Island House bill No. 552," and is dated April 20, 1938, and prepared by Mr. C. F. Creswell. It states [reading from "Exhibit No. 729"]:

Mr. Crane telephoned late this afternoon that this measure was reported favorably today in the House.

Mr. Crane is your representative, is he not?

Mr. WHITSITT. Mr. Crane is an officer of our association.

Mr. GESELL [reading further]:

Mr. Crane telephoned late this afternoon that this measure was reported favorably today in the house. He anticipates that it is likely to pass the house but feels that it is much less likely to receive favorable consideration in the senate. He had not seen Mr. White since the bill had been reported in the house and placed on the calendar, but is to go over the matter with him tonight and will pass on to us the result of their conference. Mr. Crane thought they might desire us to get in touch with the companies, seeking cooperation of general agents in the State, but is going to consider first with Mr. White the possibility of seeking such cooperation through the local general agents.

I wish to offer this memorandum for the record.

The CHAIRMAN. It may be received.

(The memorandum referred to was marked "Exhibit No. 729" and is included in the appendix on p. 4810.)

Mr. GESELL. That bill did not become law, did it?

Mr. WHITSITT. That is right.

Mr. GESELL. So that we have, then, in effect three different savings bank bills offered in the State of Rhode Island on three different occasions, none of which became law.

Mr. WHITSITT. That is right.

Mr. GESELL. All of which were opposed by the association.

Mr. WHITSITT. Right.

Mr. GESELL. Was there also a proposal in the State of New Hampshire for the adoption of savings-bank life insurance?

Mr. WHITSITT. I seem to recall one; just what year it was, I couldn't say. Your data will show the year.

The CHAIRMAN. One apparently in 1939 and one in 1935, according to the memorandum which you have.

Mr. GESELL. With respect to the 1935 bill, is this a form of letter which was sent out by your association to your member companies?

Mr. WHITSITT. Yes; this is one of ours.

Mr. GESELL. This is a letter which was written to all of the member companies, was it not, or at least distributed to some of them? It is a form letter, isn't it?

Mr. WHITSITT. It apparently is; since there is no list of companies—our uniform letters usually have a list of persons whom they are sent to—I rather imagine it was sent to a list of companies in the New England area.

Mr. GESELL. Those who would have the personnel in New Hampshire or thereabouts.

Mr. WHITSITT. I believe that was asking for some actuarial slants on the bill and it was probably written to Massachusetts companies, possibly Connecticut and Vermont, possibly some New York companies. I can only speak from recollection on that point.

Mr. GESELL. Now this letter states that [reading from "Exhibit No. 730"]:

Maj. Robert P. Burroughs, special agent at Manchester, N. H., of the National Life Insurance Co., of Vermont, who is active in the opposition to this measure, has suggested that we request the actuaries of several companies to write to him with respect to the actuarial defects of a proposal of this nature. He has particularly in mind that any life insurance originating from such a small geographical area could not place the usual reliance in mortality averages with the result that any local epidemic might be disastrous. He believes that letters from actuaries along this line, as well as pointing out any other actuarial unsoundness, will prove of material help in presenting opposition to the measure.

The letter goes on to discuss the bill in some detail. I wish to offer it for the record.

The CHAIRMAN. It may be received.

(The letter referred to was marked "Exhibit No. 730" and is included in the appendix on p. 4810.)

Mr. GESELL. Why should the association encourage opposition to the bill because of actuarial defects if the only reason for its opposition is because of State subsidy?

Mr. WHITSITT. I think Mr. Burroughs thought that if he could have some arguments against the bill on various phases, signed by some actuaries, it might carry more weight.

Mr. GESELL. That isn't the answer to my question, Mr. Whitsitt, and so I will ask it again. Why should the association encourage sending actuarial arguments against a bill if its opposition is based entirely on State subsidy?

Mr. WHITSITT. Well, a great many of our actuaries think the Massachusetts system is unsound actuarially, and Mr. Burroughs, as I recall—and this is only from recollection—was very much impressed with that viewpoint, and he was very anxious to defeat the bill.

Mr. GESELL. Since you won't answer my question directly, can I get at it this way? Once you decide to oppose a savings-bank bill, do I understand that you adopt all the conceivable arguments you can to defeat that bill?

Mr. WHITSITT. Not all the conceivable arguments, all the legitimate arguments.

Mr. GESELL. All the arguments that you consider legitimate, I take it.

Mr. WHITSITT. That is quite right.

Mr. GESELL. So if, though the motivating reason for opposing the bill may be State subsidy, you do prepare arguments of all kinds with respect to the inadvisability of the legislation and adopt such arguments as are used, for instance, in the DeGroat pamphlet.

Mr. WHITSITT. Mr. Burroughs was very active and was very helpful in defeating this bill and we decided to do everything we could in propriety to assist him, so we complied with his request to secure

some letters from some actuaries, he thinking that they would carry some weight.

Mr. GESELL. So that once you decided to oppose a bill you adopt all the arguments that you feel legitimate and urge all of them, not just the argument that prompts your opposition to the bill.

Mr. WHITSITT. That was true with certain limitations. I wouldn't want to say all arguments, but the most effective ones, those that we consider most effective. Mr. Burroughs apparently thought the actuarial argument might prove effective in his particular situation.

Mr. GESELL. Now can you tell us what some of the arguments that have been generally by your association against savings bank life insurance are? We have mentioned the State subsidy, we have mentioned your feeling that it is actuarially unsound. Will you tell us what other arguments you have publicly made or made through agents and representatives against that kind of bill in all States?

Mr. WHITSITT. I think you have taken a memorandum from our files on that that summarizes all of our arguments. I don't know whether I have one here or not. I could gladly give you a typical memorandum that covers that.

Mr. GESELL. I would appreciate that very much.

Mr. WHITSITT. I don't have one here, but I rather think you took one from our files. The other principal arguments would be preferential taxation and not subjected to the same original capital requirements nor the same examination and strict advisory requirements that ordinary legal-reserve life-insurance companies are subjected to.

Those would be the principal arguments that you will find.

Mr. GESELL. Is this memorandum entitled "Reasons why New Hampshire house bill No. 125 to permit savings banks to engage in the life-insurance business should not be enacted" prepared by you what you call a typical memorandum?

Mr. WHITSITT. I rather think that is correct. We have a rather standard form and we adjust it from State to State because sometimes there are little variations in these bills other than the subsidy and other than the taxation measures. They are frequently copies from one State to another. One State will frequently copy the Massachusetts law and sometimes they copy the Massachusetts name.

Mr. GESELL. I wish to offer this memorandum for the record.

The CHAIRMAN. It may be received.

(The memorandum referred to was marked "Exhibit No. 731" and is included in the appendix on p. 4811.)

Mr. GESELL. Did the association oppose savings bank life insurance in the State of Connecticut?

Mr. WHITSITT. Connecticut is a somewhat different State legislatively than most other States in that it is quite a life-insurance center itself. Of course, we are on record against opposing savings bank life insurance there, but our correspondents are company officials, and there are five, I believe, of our member companies located there. In the actual mechanics of handling the opposition there it is left practically entirely to the domestic companies, other than furnishing them some material, memoranda from our office, which they put to their uses. We have sent them memoranda and possibly the DeGroat article—I don't remember that.

Mr. GESELL. But they carry on the burden of their work right there in their own State.

Mr. WHITSITT. That is right.

Mr. GESELL. I show you two letters from Mr. Albert H. Yost, vice president and general counsel of the Phoenix Mutual Life Insurance Co., of Hartford, Conn., dated April 28, 1937, and May 19, 1937, addressed to you, and ask you if those are letters which you received from Mr. Yost with respect to the Connecticut situation in 1937.

Mr. WHITSITT. I think so; but may I glance through them?

Mr. GESELL. Certainly.

Mr. WHITSITT. Quite right.

Mr. GESELL. May I read these letters for the record? The letter dated April 28, 1937, states [reading from "Exhibit No. 732"]:

Thank you very much for the material that accompanied your letter of April 26 with reference to the savings bank life insurance legislation pending in the general assembly here. I hope to be able to use it with good effect.

The companies have finally waked up to the fact that the bill might possibly slip through the legislature. We all met yesterday in Mr. Brosmith's office and outlined a plan of campaign which will be directed particularly at the banking committee of the house. The situation here in Connecticut this year is that the senate is Democratic and inclined to be radical; the house is Republican and of a more conservative complexion.

So far as I can find out, this bill, which is a senate bill, is likely to be reported favorably and passed by the senate.

It so happens that one of our own agents is a member of the house banking committee. He told me yesterday over the phone that, while he had made no canvass of the membership of the house committee, from casual conversations he had had with some of the members, he was of the opinion that the bill will not be recommended favorably by the house committee. The chairman of the committee, he told me, is open to argument, and we are going to concentrate most of our efforts right there.

Because of these later developments I am a little more optimistic now of being able to defeat the bill than I was after the hearing last week when none of the companies raised any protest against the passage of the bill. The suggestions that you made to me last week and the information that you have sent will, I know, be very helpful.

Again he writes on May 19 [reading further from "Exhibit No. 732"]:

Roger B. Hull called me up the other day—

Who is Mr. Hull?

Mr. WHITSITT. He is the manager and general counsel of the National Association of Life Underwriters. It is an association of life-insurance agents.

Mr. GESELL [reading further]:

Roger B. Hull called me up the other day to find out the present status of the savings bank insurance bill in the Connecticut legislature. I suspect that he probably found out from you that I had some connection with the opposition to the bill, and it occurred to me that perhaps you would be interested to know what the situation is at the present time if you have not already heard.

The opposition, as I probably have told you, has been organized since the first hearing and the committee, headed by Berkeley Cox, whose other members are Allan Brosmith, and John Thompson, general agent of the Connecticut Mutual, has been working on the matter. They have particularly seen to it that somebody has gotten in touch with the key members of the senate and house committees. The net result has been that the senate committee has reported the bill favorably, as we expected they would, but we have found out that some of the Democratic members of the committee, particularly those from Hartford, are not entirely favorable to the bill, and there is a slight chance that it may not even pass the senate.

The house committee has reported unfavorably, and presumably since the house is largely Republican, while the senate is predominantly Democratic, the probabilities are that the house will kill the bill.

The CHAIRMAN. Apparently the agent on the house committee was a rather effective member.

Mr. GESELL. That is what it would appear to be.

Mr. GESELL. Mr. Brosmith represents the Travelers, does he not?

Mr. WHITSITT. He is an attorney for the Travelers, and Mr. Cox is an attorney for the Aetna Life.

Mr. GESELL. I wish to offer these letters for the record.

The CHAIRMAN. The letters may be received.

(The letters referred to were marked "Exhibit No. 732" and are included in the appendix on p. 4813.)

Mr. GESELL. Now before leaving this subject Mr. Whitsitt, I want to ask you a few more questions. Is your opposition to these savings bank life insurance measures an opposition which you would say was in the interest of the policyholders?

Mr. WHITSITT. I would say that in answering that question it is quite possible that the interests of the policyholders in our opposing savings bank bills is not quite so predominant as in some other bills. However, it has been felt by our executive committee and our association that any widespread introduction and passage of bills providing for State subsidy and preferential taxation, savings-bank life insurance, amounts to an assault on the established companies. And any assault on the established companies is an assault on their policyholders.

Mr. GESELL. Let me understand that. You mean that if I am a policyholder in a company that is a mutual company and well organized and has sound investments, that I am going to be injured because someone sets up a rival system of insurance?

Mr. WHITSITT. If it has been subsidized by the State.

Mr. GESELL. How am I injured?

Mr. WHITSITT. Just a moment. If it has been subsidized by the State and has preferential taxation, the chances are the rates will be lower. I would suppose that some people might drop their insurance and take savings bank life insurance. If so, they would be the healthy lives and not the uninsurable lives; consequently the mortality of the existing companies would tend to rise over a period of years, thereby reducing dividends in the future.

Mr. GESELL. Is that all of it, or is there any other way?

Mr. WHITSITT. That is for the moment.

Mr. GESELL. Well, that is the same if you set up any company with a low net cost, has the same result?

Mr. WHITSITT. I am not an actuary.

Mr. GESELL. Well, you present an extremely actuarial analysis of the situation.

Mr. WHITSITT. Just a layman's analysis.

Mr. GESELL. If I set up a company, even if I haven't a State subsidy, and I sell at a lower net cost than your company, I may take a few policyholders away from you and lower the standard of risk that you have and increase your mortality?

Mr. WHITSITT. I would suppose that if you were a wise man over a period of years your selection would be the same as that followed by the existing companies, and your expenses would be somewhat comparable.

Mr. GESELL. And your feeling is that the savings-bank selection is a bad risk, I take it?

Mr. WHITSITT. Not necessarily; but you suggested that you would have lower net costs if you set up a company. There is a question as to where you would secure those savings in costs. One way would be to have a looser selection. If you had looser selection you would have higher mortality. If you save in your overhead, how would you save in the overhead as compared with existing companies?

Mr. GESELL. You don't imagine that all existing companies have the same net cost, do you?

Mr. WHITSITT. Certainly not.

Mr. GESELL. Well, then, there are low net cost companies and high net cost companies; the low net cost companies are possibly taking business away from the high net cost companies all the time, are they not? Just the same way that savings-bank insurance might do?

Mr. WHITSITT. I suppose that is quite right.

Mr. GESELL. Is that the the only way in which you can say that the opposition to savings-bank life insurance is in the interests of the policyholders?

Mr. WHITSITT. I suppose it is in the interest of the policyholders. Take a man who has a policy in an existing life-insurance company who is uninsurable; in other words, he has his limit; why should he be taxed to support another life-insurance company?

Mr. GESELL. Oh, do you mean that if this State subsidy—

Mr. WHITSITT (interposing). The life-insurance companies pay taxes on the premiums. Part of those taxes must go toward the State subsidy of a competing private enterprise.

Mr. GESELL. That involves a matter of amount that comes in the next question I have: What kind of State subsidies do you oppose and what kind of State subsidies do you approve?

Mr. WHITSITT. I have in mind the type of subsidy that was in the original Massachusetts plan, which I believe I outlined earlier. Do you want me to review that? There is set up in the statehouse at Boston a bureau known, I believe, as the division of savings-bank life insurance, under the charge of a director, I believe. They have an actuary, possibly an assistant actuary, and a medical director. That bureau provided—I am speaking in past tense for the early periods of the savings-bank system—actuarial advice, forms, computed the rates, computed the surrender values.

Mr. GESELL. If I may interrupt, if this is a question of the policyholders' interest, the form of a subsidy isn't as important as the amount of money involved, if it is an actuary or a charwoman or if it is an office or a printing bill, as far as the policyholders are concerned, the expense is the item?

Mr. WHITSITT. In dollars and cents.

Mr. GESELL. So does your association have some expense standard by which it operates in determining whether or not it will permit subsidy?

Mr. WHITSITT. No; we have not. As I was trying to outline, it is the type of bill to which we object that follows the original Massachusetts plan, whereby the actuarial service and the forms and the policies were given free gratis from the State to the savings banks, writing life insurance, as well as a medical director who gave medical advice and underwriting advice.

Mr. GESELL. Even without regard for the amount of money that would be involved?

Mr. WHITSITT. The dollars and cents involved may be secured; I do not have them at hand; from running through the appropriation bills I believe of the Massachusetts legislature for that period of time.

Mr. GESELL. We will present those figures shortly but do I understand you to say that it doesn't involve a question of amount at all; that if those services are given you oppose the bill, regardless of how much they cost?

Mr. WHITSITT. I think you can say that that is correct. On the other hand, in the New York bill, and the present New York law, there is a State subsidy for 1 year, despite that we did not oppose the bill because there was a provision, distinct provision, to come into effect 1 year after the law went into effect to provide for a reimbursement to the State and for equal taxation, and we—our companies—feel they have no fear from savings bank competition so long as it operates on equal footing with existing companies.

Mr. GESELL. I think you have stated the thing very nicely; it is the question of a fear of competition from State life insurance, savings bank life insurance, that concerns the companies, is it not?

Mr. WHITSITT. May I qualify the way you put it? I may say it this way. It is the unfairness, from our point of view—from our company executives' point of view—with a State subsidized organization and an organization which has preferential tax.

Mr. GESELL. I have no further questions.

The CHAIRMAN. There are other questions to be asked of the witness?

Mr. HENDERSON. I wasn't quite clear on the part which your association took in connection with the New York savings bank life insurance act. You opposed the earlier acts?

Mr. WHITSITT. We did. Prior to the year 1932 I think there were one or two introduced. I am not sure if there were; my recollection is that we opposed them in the year 1932; there was one of somewhat different type; it wasn't copied from the Massachusetts law, as most of them are. But it did not provide for any State subsidy and it did provide for equal taxation. We did not oppose that bill in 1932.

Again, in 1938, a bill came in, copied quite substantially from the Massachusetts law, but with several material variations, among them the one I just mentioned, a plan for the reimbursement to the State for the costs of this division of savings-bank life insurance which was created in the insurance department and also for equal taxation with domestic life-insurance companies. We did not oppose that bill.

Mr. HENDERSON. Did you support it?

Mr. WHITSITT. We did not support it.

Mr. HENDERSON. What about your members individually?

Mr. WHITSITT. So far as I know, our company members did not take action. Mr. Hogg reminds me that one of our company presidents wrote a letter to the Governor, I believe, who sponsored the bill or recommended it in his message, stating that for those reasons, as I have outlined, his company would not oppose the bill. That was the attitude so far as I know of our member companies in New York State.

Mr. GESELL. What about the agents?

Mr. WHITSITT. The agents were rather active.

Mr. HENDERSON. You mean against?

Mr. WHITSITT. The agents suggested an amendment. The agents are the persons always most desirous to defeat a savings-bank bill because the experience in Massachusetts is that it does not compete with industrial life insurance, the average policy in Massachusetts is about \$900, the average industrial life-insurance policy is materially less than that, so the agents writing ordinary life insurance felt that after they had worked hard on a prospect and practically sold him the idea of taking, say, 5 or 10 or 15 thousand dollars worth of life insurance, with all that work, then the man could walk across the street and buy a savings-bank life-insurance policy at a somewhat cheaper rate, that was taking business away from them.

I am merely explaining the background of why the agents are much more enthusiastic than any group that I know in opposing savings-bank life insurance. In New York they proposed an amendment, I believe through their State association, limiting the amount of life insurance which may be issued on any one life. As you may recall, in Massachusetts the limit is \$1,000 on each life in each savings bank, but there is no limit on the number except limited by the number of savings banks writing life insurance, which I believe is about twenty-five or twenty-six at this time. So a man in Massachusetts can take some twenty-five or twenty-six thousand. The agents in New York, having learned from the experiences of the agents in Massachusetts, the business that they had practically sold up to the signing of the application had been lost to them, were anxious to secure some limitation in New York, and I gather that through their efforts a limitation was put in. I think they proposed a lower limitation than was finally adopted. There was a question of conference back and forth. Finally a \$3,000 limitation was adopted in the New York savings-bank insurance law.

Mr. HENDERSON. For any one bank?

Mr. WHITSITT. No; \$1,000 per bank but not more than \$3,000 on any one life.

Mr. HENDERSON. The agents were very active there and were apathetic, I gather, in Florida and sometimes in Georgia, on premium taxes.

Mr. WHITSITT. The agents in New York are much closer to Massachusetts and in much closer contact with the agents in Massachusetts.

Mr. HENDERSON. They are much closer to the association and to its headquarters. Would that explain it a little bit?

Mr. WHITSITT. Oh, I wouldn't say that, if you know how we view the contacts we have with the agents.

Mr. HENDERSON. You wouldn't expect an agent in Florida, then, to be very active in opposing savings bank legislation?

Mr. WHITSITT. He is far removed from Massachusetts, where the system began.

Mr. GESELL. If the committee is interested in this question of the activities of the Underwriters' Association in the State of New York, we can present for the record two publications sent out by the Underwriters' Association to the agents in New York indicating the type of efforts taken by them to defeat savings-bank insurance there.¹

Mr. HENDERSON. There is no indication that there was any connection between the underwriters in this case and the Association of Life Insurance Presidents?

¹ Subsequently entered as "Exhibits Nos. 733 and 734." See appendix, pp. 4814 and 4815.

Mr. GESELL. No; this would be an independent effort.

Mr. HENDERSON. I wanted to make that distinction, as I understand there is sometimes.

Mr. WHITSITT. That is quite true; in this instance, not.

Mr. GESELL. If the committee would be interested, however, I can present this material for the record and call one of our representatives who obtained it from the files of the Underwriters' Association. I think it would help to complete the picture.

The CHAIRMAN. If the material is available. You can't have it identified by this witness?

Mr. GESELL. No; I will have to call another witness.

The CHAIRMAN. Very well, at the proper time.

May I ask Mr. Whitsitt whether his association has interested itself in promoting any legislation?

Mr. WHITSITT. In some instances where there seemed to be a need of clarification of some statutes there have been times; those are exceptions, but there have been some instances.

The CHAIRMAN. Not very many?

Mr. WHITSITT. Comparatively few.

The CHAIRMAN. The question was prompted by the provision of your minutes, I believe, reading from the record of yesterday—yes; the minutes—which state that among the objects of the association¹ was—

to consider carefully measures that may be introduced from time to time in legislative bodies with a view to ascertaining and publicly presenting the grounds which may exist for opposing or advocating the proposed legislation.

I understand that you have had very little experience in advocating legislation.

Mr. WHITSITT. There is, of course full authority for that, and when a situation arises where it seems necessary we have done it, but as a practical matter those occasions haven't arisen so often. There have been a number. I could furnish you with a list of them; I haven't them offhand.

The CHAIRMAN. But, as you said a moment ago, that is exceptional?

Mr. WHITSITT. I would say it is exceptional.

The CHAIRMAN. Have you ever interested yourself in opposing or advocating any legislation in any other field?

Mr. WHITSITT. Other than life insurance?

The CHAIRMAN. Yes.

Mr. WHITSITT. No, sir; other than directly or very closely affecting our business. In other words, may I give you an illustration? When the Wheeler-Rayburn bill was pending affecting the utilities, we were importuned—our association was importuned—to take part in it on the theory that it would affect the securities of our companies. As a matter of fact, the utilities securities for our companies are the underlying operating companies, and we took no part in that, even though it might in some instances have affected us, because we felt that was out of our field.

The CHAIRMAN. As an association you took no part in it.

Mr. WHITSITT. That is correct. As an association we had nothing to do with it. We try to attend to our own business.

¹ See "Exhibit No. 690," appendix, p. 4744.

The CHAIRMAN. Do you know whether any of the insurance companies individually did?

Mr. WHITSITT. That may be true; I wouldn't be in a position to say.

The CHAIRMAN. I may say that the question was suggested to me by Senator Bone, of Washington, who has joined us this afternoon to listen to the testimony, and he has just remarked to me that at least one insurance company intervened in a legislative matter in the State of Washington over a measure dealing with municipal power companies. The Senator corrects me—an initiative matter, authorizing municipal power plants to sell power outside the boundaries of the city. That was opposed, the Senator says, by some insurance companies.

Senator BONE. Very vigorously.

The CHAIRMAN. Apparently that was not the association.

Mr. WHITSITT. Evidently not. I never heard of it before.

Mr. HENDERSON. How about social security?

Mr. WHITSITT. On social security, meaning the Federal Social Security Act, we have taken no position. We have not opposed it. We have very carefully avoided opposing the Federal Social Security Act.

Mr. HENDERSON. You are not opposing it now?

Mr. WHITSITT. We are not.

Mr. HENDERSON. Nobody representing your association is here in Washington?

Mr. WHITSITT. May I make a slight explanation? In the course of the spread of the State unemployment act over all of the States, we have a very important question, to us, regarding the interpretation of the act, namely, whether life-insurance agents on the commission basis are employees under the various State acts or under the unemployment provisions of the Federal act. We have been rather active in that field in attempting to secure rulings and in one instance some test litigation attempting to determine whether or not our agents on a commission basis are employees under the State acts. We presented many briefs to the Bureau of Internal Revenue with regard to the Federal act in behalf of various of our member companies because we maintained that such agents are independent contractors and not employees under the act, and, in addition, as a practical matter, it would be rather difficult to apply any unemployment act on a commission basis.

Mr. HENDERSON. No one is authorized to represent your association in opposing the present proposals for liberalization of the Social Security Act?

Mr. WHITSITT. Not so far as our association is concerned. What any individual company may do would be a matter for its own determination.

Mr. GESELL. Your association has been very active in the real estate and mortgage field.

Mr. WHITSITT. That is quite right, as affecting our investments.

Mr. GESELL. How do you distinguish between mortgages and utilities? What was the reasoning there?

Mr. WHITSITT. My executive committee so decided.

Mr. GESELL. You mean in the case of mortgages and real estate the executive committee did authorize the association to extend it?

Mr. WHITSITT. That is correct.

Mr. GESELL. They have not yet given that authorization in the case of utilities?

Mr. WHITSITT. Utilities, railroads, or any other bonds as distinguished from real-estate mortgages.

Mr. Hogg has handled all our social-security matters. Mr. Hogg made an appearance before the Ways and Means Committee on these bills in the House opposing the possible extension of the act to agents or an express inclusion of agents on a commission basis to be employees insofar as the unemployment provisions are concerned. Our official attitude is that we have no objection to their being under the old-age provisions.

Mr. HOGG. And the committee adopted our suggestion.

The CHAIRMAN. In presenting your point of view to the legislative bodies, you have followed the program which was outlined by Mr. Hogg and by Mr. Cooney wherever you have operated. I mean to say of bringing pressure to bear upon the legislators through the policyholders, through lawyers who may be retained, and through your agents, and any other person to whom you could present argument or whom you could stimulate to expression of your point of view.

Mr. WHITSITT. If the net result of your question is: Is Georgia or is Florida a typical State? I would have to say "No." There is no typical State.

The CHAIRMAN. I didn't intend to imply that, but I am glad to have you make the answer.

Mr. WHITSITT. There is no typical State; there are 48 varieties of States and I couldn't say the procedure followed in either Georgia or Florida was typical of any other State. There are different situations. It happens that those two States are two of our busiest States. They have given us many headaches and they have been most troublesome insofar as objectionable taxation legislation is concerned.

The CHAIRMAN. But in carrying on a legislative campaign the strategy of the association has been to arouse as much popular pressure as possible or the appearance of as much as possible by producing telegrams and letters of various kinds to be laid on the desk or poured in the ears of the legislators.

Mr. WHITSITT. I would say to a much lesser degree in substantially all of the other States.

The CHAIRMAN. It is a perfectly natural procedure and I don't know how we are going to get away from it.

Mr. WHITSITT. I would like to get away from it myself. It just so happens that those two States are unusual from the standpoint of increased taxation proposals.

The CHAIRMAN. Do you mean by your answer to convey the impression that you feel that the methods which were employed in Georgia and in Florida are perhaps a little bit reprehensible?

Mr. WHITSITT. I wouldn't go so far as to say that.

The CHAIRMAN. Well, undesirable?

Mr. WHITSITT. There may have been some things done in Georgia, for instance, that I wouldn't have approved if I had been in charge, but I was not in charge.

The CHAIRMAN. Well, the point of my question is merely that when you go into these various States to fight a bill, you use all of the well-known methods to effect your objectives.

Mr. WHITSITT. Insofar as we consider them proper and legitimate.

The CHAIRMAN. And one of the principal means is to put arguments before the legislators through the mouths of agents and lawyers and policyholders.

Mr. WHITSITT. I don't know about lawyers; through the agents and at times their policyholders, but largely through the agents. It is a question of educating the agents. Our great trouble is the lack of information in the hands of the members of the legislature. If we get opportunity to lay our facts before them, we find we get a very fair reception.

The CHAIRMAN. How do you educate the policyholders?

Mr. WHITSITT. That isn't done very extensively.

The CHAIRMAN. Of course, I have in mind the letter that Mr. Guy A. Smith wrote to you on May 3, 1937,¹ and undoubtedly such an avalanche of telegrams and calls had never before been received by those individuals.

Mr. WHITSITT. Quite right; I think I can say that that was rather an unusual situation.

The CHAIRMAN. How did you proceed to educate these policyholders to express themselves?

Mr. WHITSITT. In that instance it was a question of the State association and the various local associations of life-insurance underwriters.

The CHAIRMAN. What I am getting at is this: Doesn't it all boil itself down in the end to the presentation by the insurance executives, your association, through the mouths of dozens if not hundreds of people who themselves don't know the arguments, the arguments that you prepare in your office and circulate around?

Mr. WHITSITT. It is really a question of educating them to the dangers that will react to them and to their policyholders if such objectionable legislation is adopted.

The CHAIRMAN. And the judge as to what those dangers are is the association.

Mr. WHITSITT. The association and our executive committee and our member companies.

The CHAIRMAN. In other words, your association determines what you believe to be the desirable standards to govern life insurance and all legislation that affects life insurance, and then you endeavor to make those standards effective by opposing legislation that threatens those standards when it arises.

Mr. WHITSITT. As has been so many times said, our executives consider themselves trustees for the policyholders, and obviously they would feel they were neglecting their duty if they did not call the attention of the agents and the policyholders to such bills.

The CHAIRMAN. And there is no public body which participates with your organization of insurance companies to determine what the desirable standards are.

Mr. WHITSITT. That is right. I may say, referring to public bodies, we are subject to examination by the New York State Insurance Department. We have been examined several times, and they audit our books, they go over all of our accounts, and they look through our minutes, even more completely than some of the examiners for the

¹ See "Exhibit No. 723," appendix, p. 4801.

S. E. C. have. They spend quite a time there every few years bringing up to date examinations and then make a report to the insurance department.

The CHAIRMAN. When you refer to that, I also have in mind the testimony which appeared here this afternoon that at least one of the State insurance commissioners adopted the arguments which the association made for him and issued that statement and then in turn the Association circularized a particular legislature with his statement.¹

Mr. WHITSITT. We didn't prepare the argument. We submitted to him data. So far as I know, he gave it consideration and then he came to his conclusion and prepared it.

Mr. HENDERSON. Did you send a copy of Plain Talk to him?

Mr. WHITSITT. No; I guess I am not familiar with that.

The CHAIRMAN. Senator Bone has suggested that he might like to ask a question; and if there is no objection, the Senator will be permitted to address a question or two to the witness.

Senator BONE. Mr. Whitsitt, I would like to ask you what would induce a very prominent life-insurance company to enter into a political campaign in a State against a power bill of the character described by Senator O'Mahoney, which was then before the people of the State in the form of an initiative, subject to popular vote? In this particular instance this big insurance company circularized all of its policyholders and participated very actively in that campaign. That bill merely authorized the cities owning their own light and power systems to sell power to surrounding farm areas. Why would an insurance company feel called upon to come out on the Pacific coast and interfere in a thing of that kind and try to prevent the enactment of a bill of that character? It dealt purely with local matters.

Mr. WHITSITT. I am sure I wouldn't be able to explain that.

Senator BONE. Is there any explanation for it at all?

Mr. WHITSITT. I would suggest the best answer to that would be the executive of whatever company you have in mind.

Senator BONE. I assume that you as an executive of a life insurance organization would be able to inform me as to why they would feel called upon to come clear across the country from New York to interfere.

Mr. WHITSITT. I never heard of it until a few minutes ago.

Senator BONE. That was in 1924 in the State of Washington. At the moment I can't give you the name of the company—I think it was the Metropolitan or the New York Life—but one of the larger ones. I have my files full of material they sent out to their policyholders.

Mr. WHITSITT. Our association does not have any control over the actions of its members whatsoever. We are an entirely voluntary association.

Senator BONE. Do the big insurance companies feel called upon to defend private power companies against that form of small competition?

Mr. WHITSITT. I am afraid I will have to suggest that the only way to get an answer to that question is to direct it to the officers of that company.

Senator BONE. They had the question directed to them.

The CHAIRMAN. In any event your association did not intervene.

¹ See *supra*, p. 4432.

Mr. WHITSITT. No, sir.

Mr. HENDERSON. I think you suggested, Mr. Whitsitt, that Georgia and Florida were a couple of States that gave you the most headaches.

Mr. WHITSITT. Yes.

Mr. HENDERSON. They are not the ones that cost your association the most.¹

Mr. WHITSITT. Excuse me. They are two; there are some others.

Mr. HENDERSON. Oklahoma seems to be bad.

Mr. WHITSITT. Oklahoma is very troublesome.

Mr. HENDERSON. Virginia seems to be very small, and Missouri seems to have some high expenses; and California.

Mr. WHITSITT. That is right. It will vary from State to State.

Mr. HENDERSON. Wisconsin. So it isn't just a couple of Southern States that happened to be chosen for exhibit today?

Mr. WHITSITT. I didn't intend to imply they were the only two headaches. We have headaches here and there and it may break out in a previously quiet spot.

Mr. HENDERSON. Some of these seem to have repetitions.

Mr. WHITSITT. Oklahoma, you will find, has always been a headache.

The CHAIRMAN. Well that, of course, brings back the question that, perhaps, I propounded this morning, whether or not it isn't a fact that this is a business with a pronounced national aspect, but in which there is no agency representing the public interest to cooperate with the experts of business in effecting necessary standards.

You have formed an association of insurance executives for the purpose of improving the general insurance picture. In these circumstances do you think it would be good or a bad thing if there were national legislation in this field?

Mr. WHITSITT. I think, as I intimated this morning, it would depend entirely upon what kind of—

The CHAIRMAN (interposing). Naturally it would.

Mr. WHITSITT. Whether it was supervision superimposed upon the existing, or whether it would eliminate entirely the 48 State insurance departments that we now have, which have been functioning for many years. If you eliminate them entirely, excluding in the elimination the rights of the various 48 States to tax the premiums, from which they get a very sizeable revenue—I suppose some 15 or 20 times more than it takes to support the insurance department—it depends entirely upon what kind of legislation is contemplated.

The CHAIRMAN. You wouldn't object to proper legislation, and if it were proper, if a national system were adopted, it might be approved?

Mr. WHITSITT. My association has never taken a position on that subject; therefore, as for the association, I could not express an opinion.

The CHAIRMAN. This is probably not the proper place to pursue the inquiry anyway.

Are there any other questions?

Mr. GESELL. No further questions of this witness.

If the committee desires, I can call a member of our staff to identify two documents relative to the activities of the Life Insurance Underwriters Association.

¹ See "Exhibit No. 694," appendix, p. 4752.

The CHAIRMAN. Let that be done. That will go into the record as of today.

Do you solemnly swear the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. REILLY. I do.

TESTIMONY OF JOSEPH A. REILLY, INSURANCE SECTION, SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.

Mr. GESELL. What is your full name?

Mr. REILLY. Joseph A. Reilly.

Mr. GESELL. You are on the staff of the insurance section of the Securities and Exchange Commission, are you not?

Mr. REILLY. That is right.

Mr. GESELL. Did you have occasion recently to call at the offices of the Life Underwriters' Association of the city of New York and talk to Mr. Arthur V. Youngman, president of that association?

Mr. REILLY. I called at the offices of the Life Underwriters' Association of New York and talked to Mr. Don Hughes, managing director. Mr. Hughes was not managing director at the time, during the early part of 1938, however.

Mr. GESELL. Do you recognize these two documents which I show you?

Mr. REILLY. Yes; these were obtained from Mr. Hughes at the office of the Life Underwriters' Association of New York.

Mr. GESELL. Did he state that they were documents used by the association?

Mr. REILLY. He did.

Mr. GESELL. I wish to offer these documents for the record; first, a circular letter dated February 25, 1938, sent over the heading of the committee on law and legislation of the Life Underwriters' Association of the City of New York, Inc.

The CHAIRMAN. The document may be received.

(The document referred to was marked "Exhibit No. 733" and is included in the appendix on p. 4814.)

Mr. GESELL. And a second document, undated, marked "Flash!" also over the signature of the committee on law and legislation of the Life Underwriters' Association.

The CHAIRMAN. It may be received.

(The document referred to was marked "Exhibit No. 734" and is included in the appendix on p. 4815.)

The CHAIRMAN. If there is no further testimony to be offered this afternoon, the committee will stand in recess until 10:30 tomorrow morning.

(Whereupon, at 4:30 p. m., a recess was taken until 10:30 a. m. Thursday, June 15, 1939.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

THURSDAY, JUNE 15, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:50 a. m., pursuant to adjournment on Wednesday, June 14, 1939, in the caucus room, Senate Office Building, Senator Joseph C. O'Mahoney presiding.

Present: Senator O'Mahoney (chairman); Messrs. Williams, Reece, Henderson, Lubin, O'Connell, and Brackett.

Present also: Joseph Borkin, Department of Justice, and Gerhard A. Gesell, special counsel, Securities and Exchange Commission.

The CHAIRMAN. The meeting will please come to order. Will you call your first witness?

SAVINGS BANK LIFE INSURANCE—DESCRIPTION

Mr. GESELL. Yes. I would like to make a short statement at the opening this morning. On yesterday we presented testimony indicating the character of the opposition which the Association of Life Insurance Presidents has made in recent years against the enactment of savings-bank life insurance in many States.

Today we will present testimony illustrating the operations of savings bank life insurance in Massachusetts and New York, the two States in which it has been enacted to date. Many of the problems the committee has been considering will be brought into sharper focus through today's testimony. Not only will the activities of the association be more clearly understood, but the testimony will bear on such problems as size, net cost, the relationship between agency selling and voluntary terminations, and other matters in which the committee has expressed an interest.

The first witness will be Mr. Judd Dewey, deputy commissioner of savings bank life insurance in the State of Massachusetts.

Mr. BORKIN. On behalf of the Department of Justice I would like to introduce for the record some of the contracts used during the last investigation, but not introduced.¹ I should like to introduce them at this time.

The CHAIRMAN. Not for the record?

Mr. BORKIN. Not to be printed, but to be filed with the committee.

The CHAIRMAN. It is so ordered.

(The contracts referred to were marked "Exhibit No. 735" and are on file with the committee.)

¹ For record of hearing on the glass container industry, see Hearings, Part II.

The CHAIRMAN. Mr. Dewey, do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DEWEY. I do.

TESTIMONY OF JUDD DEWEY, DEPUTY COMMISSIONER OF SAVINGS BANK LIFE INSURANCE IN THE STATE OF MASSACHUSETTS, BOSTON, MASS.

Mr. GESELL. Will you state your full name, please, sir?

Mr. DEWEY. Judd, J-u-d-d, Dewey, D-e-w-e-y.

Mr. GESELL. You are deputy commissioner of savings-bank life insurance in the State of Massachusetts, are you not?

Mr. DEWEY. Yes, sir.

Mr. GESELL. How long have you occupied that position?

Mr. DEWEY. Since April 1934.

Mr. GESELL. Were you connected in any way with savings-bank life insurance prior to that time?

Mr. DEWEY. I served as unpaid counsel for savings-bank life insurance from 1916, when Mr. Brandeis came to Washington to go on the Court; I undertook to do as well as I could what he had been doing theretofore as counsel for the system, and I served as unpaid counsel from 1916 until in 1934 when Miss Grady, who was deputy commissioner, died, and I gave up my practice and took her position as deputy commissioner.

Mr. GESELL. What is your salary as deputy commissioner, Mr. Dewey?

Mr. DEWEY. \$4,200 a year.

Mr. GESELL. Will you give us some idea of your responsibilities and duties and the extent to which you come into contact with the day-to-day problems of savings-bank life insurance in Massachusetts?

Mr. DEWEY. I am appointed deputy commissioner by a board of seven unpaid trustees. The division of savings-bank life insurance consists of a board of seven unpaid trustees who are appointed by the Governor for terms of 7 years each in rotation. The chairman of that board is the commissioner of savings-bank life insurance. They are all unpaid trustees and he is unpaid and is not expected to devote his time, or at least his full time, to the work of the division.

The active administrative officer in charge of the division is the deputy commissioner, and that is my position. It is a full-time job and requires all of my time from morning till night, and sometimes late at night, and I am in contact with the banks which issue the insurance—that is, in daily contact not with all of them each day—but with the banks who issue the insurance, with the employers who act as agencies and other institutions who act as agencies, and with a great many of the policyholders, who come to the office or telephone to the office, have general administrative supervision of the division.

I haven't actually any authority or any considerable authority. The authority is in the board of trustees and in the State actuary and the State medical director.

Mr. GESELL. You say you are appointed by the board of trustees?

Mr. DEWEY. Yes, sir.

Mr. GESELL. How can you be removed from office? What is the term of your appointment?

Mr. DEWEY. I can be removed from office or the State actuary or the State medical director can be removed from office only by action of this board of trustees which would have to be approved by the Governor and council, but the Governor and council couldn't initiate proceedings to remove either the State actuary or the medical director or myself. Mr. Brandeis had the idea and that of the legislature which adopted this statute, which was that those in charge of the administration of savings-bank life insurance should be removed so far as humanly possible from any possible pressure or influence—political—because we have political influence in Massachusetts I suppose as they do in some other States, or financial or any other kind. And it was felt, therefore, that those officers, although they were to be State officers, should not be subjected to, for instance, expiration of a term of office when they would have to be wondering whether they would be reappointed.

And so to accomplish that as far as possible it was provided that this division should consist of this board of seven unpaid trustees and they are appointed for a term of 7 years in rotation.

Mr. GESELL. By whom are they appointed?

Mr. DEWEY. They are appointed by the Governor.

Mr. GESELL. Mr. Dewey, will you tell us a little about the history of savings bank life insurance, how it was originated, and so forth?

Mr. DEWEY. The act was enacted in June of 1907. Mr. Brandeis prepared the bill which was enacted at that time. It might be some illustration of the thoroughness with which he did his work to say that we have a letter from him to his consulting actuary, written in November 1905, saying he had now decided the savings bank could be adapted to the writing of life insurance, and he was going to begin work in preparation of a bill for that purpose. That was in November of 1905 and he didn't have that bill in form satisfactory to him until September of 1906. He didn't devote all of that intervening time to it, but he was working on it all of that time, and when it was done it was in such form that there was no place where an amendment could be plausibly suggested, and it was enacted by the legislature finally, after a very vigorous fight, but it was enacted as Mr. Brandeis had prepared and presented it to the recess commission.

Representative REECE. Did he hold any official position at that time?

Mr. DEWEY. He had no official position. He was in the private practice of law in Boston.

Mr. GESELL. What was the purpose of savings bank life insurance; what functions was it supposed to perform?

Mr. DEWEY. The primary purpose of it was to make life insurance available to the people of Massachusetts at lower cost than insurance could then be had for, and at what insurance would need to cost on a basis such as was proposed in the bill.

I might say there, Mr. Chairman, that there has been considerable discussion of savings-bank life insurance in comparison with the companies and upon a basis that seems to assume that it should be conducted as the companies are: It should be remembered that when this was proposed in Massachusetts there were already some 35 or

40 companies operating in Massachusetts, writing life insurance. Those were all of the larger companies, the good companies. Most of them are still writing insurance there. There was no need of just another life insurance company. These companies were all good and they could provide life insurance to the people of Massachusetts on that general basis of operating. So there wasn't any intention in the minds of the legislature of creating just another life insurance company like those which were already functioning. Therefore, the system was set up on a different basis. It was proposed to provide the same type of life insurance actuarially, that is legal-reserve life insurance written under the laws of Massachusetts governing the domestic legal-reserve companies, but with a different structure and a different method of operation, and the structure was different in having those in charge of important functions in the institution State officers: That is, first, the State actuary. The State actuary does that work which is done for life insurance companies by their own actuarial staff.

The actuary is an important person in the life-insurance institution. He decides a lot besides just technical questions. He decides a lot of questions that affect the welfare of the policyholder as well as the welfare of the institution that writes the policy. He computes the profits, he recommends what can be paid as dividends to policyholders, he determines the policy forms, he has a lot to do with determining how soon you can get a cash surrender value and how soon you can have a loan value, and a great many things that affect the welfare of the policyholder are determined by the actuary.

In the ordinary life-insurance institution, those are decided by a person who is in the employ of the company that is going to write the contract. I don't say that isn't all right, but he is employed to do those things and to decide those questions, and he is employed by one of the parties to the contract, and the other one hasn't anybody representing him there.

It was thought by Mr. Brandeis and by the legislature that it would be well to have those services performed for this new life-insurance institution by a person who wasn't employed by the institution that was going to write the policy.

Mr. GESELL. This State actuary, Mr. Dewey, is he appointed the same way you are, removable in the same way?

Mr. DEWEY. He is appointed by the trustees and removable only by the trustees, with the approval of the Governor and council.

Mr. GESELL. What is the salary?

Mr. DEWEY. I beg your pardon, you asked me about the term of office. Neither the State actuary, the State medical director, or the deputy commissioner is appointed for any definite term; they are appointed during good behavior, if I may say so, so they don't have to wonder if they are going to be reappointed.

Mr. GESELL. What is the actuary's salary?

Mr. DEWEY. Thirty-eight hundred dollars.

The CHAIRMAN. What guaranty is there, if any, of permanent status as an employee and protection against political removal?

Mr. DEWEY. This structure of the thing, Senator. The seven trustees in the first place serve without pay and ever since the system was established, ever since Governor Guild appointed the first board

of trustees, it has been possible to have men of the very finest type, public-spirited men: for instance, George Wigglesworth, chairman of the board of overseers of Harvard; Bernard J. Rothwell, former president of the chamber of commerce; George S. Barnes. That type of men give their time to this thing as trustees of this fund.

Mr. GESELL. Those trustees are appointed for a term by the Governor, are they not?

Mr. DEWEY. Yes, sir; in rotation.

Mr. GESELL. Then they appoint the actuary, the medical director, and the deputy commissioner.

Mr. DEWEY. Yes, sir.

Mr. GESELL. They can institute proceedings to remove the deputy commissioner, the actuary, or the medical officer, can they not?

Mr. DEWEY. Yes, sir.

Mr. GESELL. But the Governor himself cannot institute such proceedings.

Mr. DEWEY. No.

Mr. GESELL. The Governor must, however, approve, must he not, the recommendation of the trustees, if removal is recommended?

Mr. DEWEY. It would require approval of the action of the trustees by the Governor and council. If the gentlemen were disposed to be arbitrary—and, of course, they wouldn't be—their action in removing would be subject to review by the Governor and council.

I don't know that I have answered the chairman's question.

The CHAIRMAN. I think you have.

Mr. GESELL. In the case of the medical officer, what is his salary?

Mr. DEWEY. Dr. Burnett, the State medical director, and his assistant, Dr. Manton, are not full-time employees. They are paid on a basis calculated in proportion to what would be a full-time salary. Dr. Burnett received \$2,000 a year, Dr. Manton about \$1,400; that is for an hour and a half of Dr. Manton's time and 2 hours a day of Dr. Burnett's time.

Mr. GESELL. Do I understand they must approve each risk written by the savings banks in Massachusetts?

Mr. DEWEY. Yes, sir. The application I might explain a little more if you want me to, just how the machinery works, because it is quite simple. If I went into a savings bank somewhere in Massachusetts and applied or went into the office of the United Shoe Machinery Co. and applied for say a \$1,000 policy, the person who took that application would give me a note to the local medical examiner. The local medical examiners are appointed as examiners for savings bank life insurance just the same as the companies have their local examiners. Then the application would be sent to the office of the State medical director. After he receives the report from the medical examiner, he either approves or disapproves the application. He so indicates in writing on the application, and if approved it is sent to the bank which issues the policy. The bank issues the policy and mails it to the place where the application originated, and they notify the person that the policy is there, and he comes in and gets it. We don't take any deposit with the application. We don't have the problem of policies, what are called N. T. O.—not taken out. People apply for savings bank life insurance, and when they are notified the policy is ready they go and get it and pay the first premium, and the policy is in force.

In response to your question, the application must be approved by the State medical director.

Mr. GESELL. Did I understand that the State actuary fixes the rates at which the insurance policies are sold?

Mr. DEWEY. He determines the premiums to be charged for the policies. The banks have nothing to do with that whatsoever. They have no authority in the matter of determining the premiums.

Mr. GESELL. And do I understand that the banks are authorized to write all the customary forms of life insurance which are written by the old-line companies?

Mr. DEWEY. The law authorizes the banks to write any type of policy that can legally be issued by any domestic legal reserve company operating under the laws of Massachusetts. As a matter of fact, sir, after the insurance department is established in the savings bank, it receives a license from the commissioner of insurance; it is, except for special provisions, governed by all of the laws of Massachusetts that govern domestic legal-reserve companies. It can issue any kind of policy they issue.

Mr. GESELL. When did the first bank enter into the system?

Mr. DEWEY. The first bank began operations in June of 1908. That was about a year after the act was passed which made it possible for such departments to be established.

Mr. GESELL. I show you a schedule entitled "Massachusetts savings banks issuing life insurance listed in the order of their entrance into the system." Can you identify that as a schedule prepared in your office?

Mr. DEWEY. That schedule was prepared by Mr. Eugene F. Caldwell, the State actuary. He has put his initials on it, "E. F. C."

Mr. GESELL. That shows the names of banks, the date they have entered, the number of policies in force, the amount of insurance in force, the admitted assets of the insurance department of the respective banks, the assets of the savings banks, and the totals of those figures.

Mr. DEWEY. Yes, sir.

Mr. GESELL. I wish to offer this schedule for the record.

The CHAIRMAN. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 736" and is included in the appendix on p. 4816.)

Mr. GESELL. Are there any comments you wish to make on the schedule?

Mr. DEWEY. First, I would say that the assets of the savings department were included there only because it was thought they might be of interest. They have no relation to the insurance department whatsoever. The insurance department legally is entirely separate from the savings department.

Mr. GESELL. Well now—

Mr. DEWEY. Excuse me. It will be noticed there the growth in the number of banks was slow. The Whitman Savings Bank came in in June of 1908; then the Peoples Savings Bank during the same year. Governor Douglas—by the way ex-Governor Douglas was president of that Peoples Savings Bank and he put up the entire \$25,000 guaranty fund. He was a shoe manufacturer and he wanted this made available to the workers in his factories.

Mr. GESELL. Now, am I correct in saying that there are now 24 banks issuing savings-bank life insurance?

Mr. DEWEY. Twenty-six; two that are not included here because they became issuing banks on November 1, 1939, and had not had a full year's operation to the time when these figures were prepared.

Mr. GESELL. What are the names of those two banks, Mr. Dewey, please?

Mr. DEWEY. The Brockton Savings Bank and the Penny Savings Bank of Boston.

Mr. GESELL. Now I show you a schedule entitled "Growth of savings-bank life insurance in Massachusetts, 1908 and 1938," and ask you if that schedule is correct and prepared by the State actuary?

Mr. DEWEY. It is, sir.

Mr. GESELL. I wish to offer this schedule for the record.

The CHAIRMAN. The schedule may be received. With respect to this schedule, Mr. Dewey, I observe that there was a very substantial reduction of the amount of annuity premiums in 1938 as compared with 1937.

(The schedule referred to was marked "Exhibit No. 737" and is included in the appendix on p. 4816.)

Mr. DEWEY. Yes, sir.

The CHAIRMAN. How is that explained?

Mr. DEWEY. Well, whether it was in part due to people not having the money to buy annuities, I don't know, but we have been making from time to time in the last several years changes in our annuity premium rates, increasing the premium somewhat, decreasing the benefits. Annuities, sir, are dependent almost entirely upon investment earnings. You don't have any mortality profit from annuities like you do from life insurance policies. Annuitants don't die as fast as the table says they will.

The CHAIRMAN. Well, if you will observe, if you will compare the figures for 1938 with those for 1936 you will note that the annuity premiums suffered similar substantial decline as compared to '37, which I have already pointed out; whereas the total premium income for 1938 was greater than that of 1936.

Mr. DEWEY. Well, this also occurred, sir. The savings banks which write these contracts are authorized under the law and have been from the start, to write annuity contracts paying \$200 a year; that is the maximum that any one bank could write. That would make it possible when there were 24 banks, if a person bought an annuity contract in each bank he could buy as much as \$4,800 of income, do you see, in the savings bank system. Now that means quite a lot—very few could do that—but that means quite a lot of cash and it was felt that that was beyond the average, and that we ought to use our facilities not for people who had 20 or 30 or 40 thousand dollars to buy an annuity with. Our investment facilities, I mean, for those who could buy the smaller amounts. Not that there is anything wrong about the people buying the larger amounts, but savings bank investment boards have work to do, and they have this investment to do, and life-insurance premium income comes in steadily and gradually and in small amounts, but single premium annuity income comes in fairly large bunches, and so the banks agreed that notwithstanding that they could write \$4,800 of annuity they would restrict

the purchase of annuities to an income of \$600. That accounts for that sharp drop. The banks will not now write—you can buy as much as \$50 in any one bank and not more than 12 banks; so that the total income you can buy at this time in savings bank life insurance annuities is \$600 per year.

That was due, as I say, to the difficulty of investment, not the impossibility, but it was a large sum of money to have to invest and we felt that our facilities should be used for other things.

Mr. GESELL. Perhaps you should explain at this time to the committee how the savings bank system operates, the different types of institutions that are members, the way in which a man must proceed to take out a policy, the procedure he must follow in paying for that policy.

Mr. DEWEY. Perhaps, Counsel, if you will pardon me, the commission might be interested to know first what a bank has to do before it can write a life-insurance policy.

Mr. GESELL. Yes; will you tell us that please?

Mr. DEWEY. If a bank decides that it would like to become an issuing bank—that is, to write life-insurance policies—it must call a special meeting of its board of incorporators and its board of trustees and it must be called only for the purpose of considering the establishment of an insurance department. It cannot be done at one of the regular meetings—a special meeting must be called for this purpose upon 30 days' notice. At such meeting the trustees of the bank vote by not less than a three-fourths majority to establish an insurance department. If they do so vote, then that vote must be ratified by the incorporators of the bank, who are a larger body, corresponding in a general way perhaps to the stockholders, whereas the trustees would represent the directors. There is no such thing, but the incorporators are a larger body of 40 or 50 men. They approve the vote of the trustees and then the treasurer of the bank must certify under oath and the president that these votes have been passed to establish the department; that the bank has been provided with a special expense guaranty fund of \$5,000 and with a special insurance fund of \$20,000.

Mr. GESELL. That makes a total of \$25,000.

Mr. DEWEY. Yes.

Mr. GESELL. May I ask, Mr. Dewey, whether all the savings banks incorporated in Massachusetts are eligible for membership in the savings-bank life insurance system?

Mr. DEWEY. Yes, sir; any savings bank in Massachusetts is eligible to become an issuing bank provided the commissioner of banks sees no objection.

Mr. GESELL. He has a veto power, then, over their joining?

Mr. DEWEY. Oh, yes; we wouldn't go ahead encouraging the bank before we talked to the commissioner. I mean, we haven't had any trouble with savings banks, but, for instance, several years ago I talked with the commissioner, and said a bank was thinking of coming in, and he said, "I have told them they can't buy a new broom until they get such and such bond situation straightened out. Just leave them alone for a little while."

Mr. GESELL. You work in close cooperation, I take it, with the commissioner of banks.

Mr. DEWEY. Oh, yes; he has legal authority to say the bank may not come in, but it has never gone to that point.

Mr. GESELL. Do I understand that the banks in Massachusetts are mutual banks?

Mr. DEWEY. Purely mutual banks. Those banks began—the first one was created about 120 years ago. There is a story about it in the Savings Bank Journal last week, and a Mr. Savage started the Provident Institution for Savings, which is an old one and a very fine one, although in no way identified with the savings-bank life insurance. They are purely mutual. The country I come from out in Iowa they don't have mutual savings banks. A lot of the States don't have them, but these New England savings banks are very fine institutions. They have the best men, businessmen and professional men of the community who serve without pay as trustees and incorporators of these banks, and they give their time and their thought to this purely public thing of making a place where the people can deposit their money, have it handled frugally and safely and carefully, and paid such rate of interest as can be paid, and they are really very fine, and they are purely mutual.

Mr. GESELL. Quite a few other States, some 17 I believe, have mutual banks, do they not?

Mr. DEWEY. Well, there are a limited number in the States outside of New England and New York. There is a mutual savings bank in Minneapolis, maybe two. There are three mutual savings banks in Ohio. There is a mutual savings bank in Florida, I think one. There are a number in other States, I think perhaps one or more in as many as 17 States; but the great bulk of them are in New England and New York.

Mr. GESELL. Now, you have told us what a bank must do to become a member. Let us assume that a bank has applied and qualified; what is the next step?

Mr. DEWEY. Let me state first that these papers showing the votes have been taken and that the guaranty funds are on hand, are sent to the commissioner of banks and the commissioner of insurance, and they issue a joint declaration that the insurance department is established. Then the commissioner of insurance issues a license and the bank is ready to begin business. Meanwhile, the State actuary has prepared the policy forms for the bank in the intervening time and they are provided with policy forms, premium rate sheets, and all of the things that they will need to conduct the business. The only thing a new bank has to furnish is some kind of a cabinet in which they can keep these flat policy forms, but they start it without any outlay for equipment for policies or premium rate sheets or similar material.

Mr. GESELL. Now, let me ask whether the bank must contribute to any central guaranty fund when it enters into the system?

Mr. DEWEY. Not now. When the system was established it was provided—you see, this thing had to be done on a basis where it not only would be absolutely safe and sound but where it would appear obviously so to the legislature that was considering it; and so it was provided—should I wait until the chairman is through?

Mr. GESELL. No.

Mr. DEWEY. And so it was provided not only that the insurance to be written should be legal-reserve insurance under the laws of Massachusetts, but that there should be a statutory requirement of the building up of some surplus in the insurance department. Then, in addition to that, it was provided that 4 percent of all premium income of every kind should be paid in to these trustees of the general insurance guaranty fund to be held by them and used for the making good of the impairment of the reserve or for any other purpose for which it might be needed by the insurance departments of these banks.

Mr. GESELL. How big a fund was accumulated in that manner?

Mr. DEWEY. That fund accumulated to something over a hundred thousand dollars. The law provided that after that fund—I have just said, Senator, in the early days, in addition to legal reserve and statutory requirements for surplus in each individual bank, the law also provided that 4 percent of all premium income should be paid into a special fund called the general insurance guarantee fund, to be held by these trustees of whom I spoke earlier, and to be used to make good any impairment of the reserve in the insurance department of any of these banks from unusual mortality or for any other reason such impairment occurs. That fund accumulated to something over \$100,000. The law also provided that when it became a hundred thousand dollars or more, those contributions might be discontinued or reduced.

Mr. GESELL. So I understand there are no contributions at the present time.

Mr. DEWEY. Since that time—that is done with the approval of the commissioner of insurance and commissioner of banks. Since that time there have been no contributions to that fund. It has accumulated to \$180,000 or \$190,000 by interest accretions and it has never been needed. Those contributions could be at any time resumed if the trustees of the general insurance guaranty fund felt it would be desirable. Now, that would be quite a factor; premium income being about 5,000,000 a year, that would be quite a factor.

Mr. GESELL. Do I understand when a bank enters into this system then it must set aside a total, I think you said, of \$25,000 with which to commence operations?

Mr. DEWEY. The bank doesn't set that aside. That money is provided to the bank. Those funds don't come out of bank deposits. Not a dollar of the savings department money can be used for the insurance department. That \$25,000 of guaranty fund is provided to the bank by interested individuals.

Mr. GESELL. Oh, in other words, if the bank decides to go into it, it doesn't have to put up any of its capital at all.

Mr. DEWEY. It cannot. It does not put up a penny.

Mr. GESELL. It is prohibited from doing so.

Mr. DEWEY. Oh, yes; they can't take a dollar out of the savings department.

Mr. GESELL. During the course of operation of the bank after it enters into the system, do I understand that segregation is maintained?

Mr. DEWEY. Oh, yes; the statute provides for it definitely. One of the few places where the language is repeated says that the assets of the insurance department may not be taken for the savings depart-

ment and the assets of the savings department may not be taken for the insurance department, and they shall be kept separate in matters of accounting. They are kept entirely separate.

Mr. GESELL. At the present time what are the expenses, total funds expended in the Division of Savings Bank Life Insurance of Massachusetts?

Mr. DEWEY. Pardon me, before I answer that may I say that those guaranty funds which have been put up in that way have all been repaid to the people who put them up, and the law permits them to be repaid with interest at the same rate being paid in the savings department, and except for the two banks which came in last November, those funds have been returned to those who put them up with interest.

Mr. GESELL. Now with respect to my question which was, How much are the expenses of the division of savings bank life insurance? Can you tell us what the figure is at the present time?

Mr. DEWEY. Well, the appropriation last year was \$64,000, I think.

Mr. GESELL. How is that appropriation made?

Mr. DEWEY. It is made in the regular way. It is a regular part of the State budget. It is for the division of savings bank life insurance. We have two items in the budget, personal service and other than personal. It includes the salary of the State actuary, medical director, deputy commissioner, and clerks and employees; and then other than personal is other expenses of the department, stationery, telephone, telegraph. Our budget last year was \$64,000. That is appropriated whenever the budget is passed.

Mr. GESELL. Is that fund reimbursed at the present time by the banks?

Mr. DEWEY. On or before December 30 for the State fiscal year ending November 30 the entire State appropriation of that year is repaid to the treasury of the Commonwealth by the issuing banks under a statute which we caused to be enacted in 1929 called the reimbursement statute. That is assessed upon the issuing banks, not an assessment—the statute provided for its allocation by the State actuary among the issuing banks in proportion to their premium income.

Mr. GESELL. They in effect reimburse the State for the amount of money that it has to appropriate to maintain the division of savings-bank life insurance.

Mr. DEWEY. They reimburse it for every penny spent for the division, but this interesting thing has occurred. The life-insurance people, having first talked about the appropriation which they said was a burden to the taxpayers, and they having been deprived of that argument by reimbursement having been provided, in the last year or two they have begun to say, "Yes, it is all repaid, but you have the use of the money for a year without interest," and so we, being tractable, reasonable persons, and liking to keep the life-insurance people happy if we can without hurting anything, we proposed a bill in the legislature this year, which is what I spoke about before the Ways and Means, just before I came down here, under which we are going to provide the Commonwealth with the money in advance, so now the Commonwealth will have the money in advance for expenditure by the division of savings-bank life insurance.

Mr. GESELL. I understood you to say this reimbursement feature has been in existence since 1929.

Mr. DEWEY. Yes, sir.

Mr. GESELL. Do I understand prior to that time the State was not reimbursed for the appropriation which was necessary to maintain the division of savings-bank life insurance?

Mr. DEWEY. Not at all.

Mr. GESELL. What was the total amount of money expended by the State from 1908 to 1929 in maintaining that division?

Mr. DEWEY. About \$500,000, a little less than that, \$492,000.

Mr. GESELL. There is no provision for reimbursing the State for that expenditure?

Mr. DEWEY. Oh, no; and there won't be any provision for reimbursing. There is no reason why—actually there was no reason for reimbursing any of it. The people in the division of State savings-bank life insurance are State officers, performing a State function just the same as any other State officer. There is no reason why their salaries shouldn't be paid as they were by the Commonwealth of Massachusetts. The reason we finally proposed reimbursement wasn't because it wasn't proper for the State to pay State officers. It was because the life-insurance men were using the fact that there was a State appropriation. They were saying that that accounted for the low cost of savings-bank life insurance and that the taxpayers were paying for it. Of course, they weren't; the savings banks, every one of them from the day it established its insurance department, every one of them has paid the expenses of running the insurance department. The State has never subsidized the insurance department of any savings bank.

Mr. GESELL. Let me see if I understand that. This five hundred-odd-thousand-dollar figure has been money expended solely for the maintenance of the division of savings-bank life insurance as a department of the Massachusetts State government.

Mr. DEWEY. That is all.

Mr. GESELL. The banks themselves since 1908 have always been able to meet their expenses in writing, underwriting, and handling insurance. Is that correct?

Mr. DEWEY. They have always paid the expenses of their own insurance departments and they have never even used a dollar of the special expense guaranty fund.

Mr. GESELL. It has never had to go to that guaranty fund?

Mr. DEWEY. Not to either the expense or the guaranty insurance fund, neither one.

Mr. GESELL. Can you tell us a little more about this bank which we have been following?

Mr. DEWEY. I would like, if I may, sir, I would like to tell you why we put in reimbursement.

Mr. GESELL. I will come to the question of reimbursement and cost in more detail. I would like you to answer my questions.

Mr. DEWEY. All right, the first question.

Mr. GESELL. The bank which has entered into this system commences to write insurance after it has been approved.

Mr. DEWEY. Yes, sir.

Mr. GESELL. What does it do to get insurance on its books?

Mr. DEWEY. Well, there will be some publicity connected with the fact that it has opened an insurance department. The local papers

will carry a story on it. It is a matter of news. The name of that bank will be sent to all of the agencies which there are which receive applications. There are 517 or 519 agencies which receive applications for savings-bank life insurance.

Mr. GESELL. On that, in order that we can understand the mechanism of this system, I show you a schedule entitled "Number and Types of Agencies for Savings Bank Life Insurance on June 13, 1939."¹ That purports to show the number of agencies of various types per county in Massachusetts; does it not?

Mr. DEWEY. Yes, sir.

Mr. GESELL. It was prepared by the State actuary; was it not?

Mr. DEWEY. Yes, sir.

Mr. GESELL. Now I notice you have a total of 517 types of agencies for savings-bank life insurance.

Mr. DEWEY. Not 517 types, 517 agencies.

Mr. GESELL. Agencies.

Mr. DEWEY. Yes, sir.

Mr. GESELL. I notice there are 36 issuing banks or their branches.

Mr. DEWEY. Twenty-six, oh, yes; some of the issuing banks have branches.

Mr. GESELL. Thirty-six the schedule states, 36 issuing banks or their branches.

Mr. DEWEY. You are correct.

Mr. GESELL. Those, I take it, are banks which directly issue savings-bank policies; is that correct?

Mr. DEWEY. No. 11, Mr. Chairman; yes, sir.

Mr. GESELL. You then have a caption on this schedule "Agency Banks or Their Branches." What is an agency bank?

Mr. DEWEY. That is a savings bank, usually a savings bank. That is a savings bank which doesn't wish to open an insurance department for the purpose of issuing policies, but which does wish to make savings-bank life insurance available to the people in its community, and so it becomes an agency under a simple agency agreement. It becomes an agency for the issuing bank.

Mr. GESELL. You mean by that if I were in Massachusetts I could go to one of these agency banks and take out a policy issued by one of the issuing banks?

Mr. DEWEY. Yes, sir; you could go into the Springfield Five Cent Savings Bank, which is an agency, and make your application there. They would send the application to the issuing bank or to the State House and then to the issuing bank, and the issuing bank sends it to them. You could have your savings account there if you wished, pay your premiums and everything else.

Mr. GESELL. Do the agency banks have any particular affiliation with a particular issuing bank?

Mr. DEWEY. No, sir; the agency banks, each of them, is an agency for all of the issuing banks.

Mr. GESELL. What sort of fee is taken by the agency banks? I assume there is some fee.

Mr. DEWEY. There is a collection fee which is now 3 percent; up to 2 years ago, a year ago, it was 2 percent of the premium income. That is supposed to take care of the expenses of the agency bank

¹ Entered later as "Exhibit No. 738." See appendix, p. 4817.

in connection with handling the applications. It is not supposed to be a source of profit.

Mr. GESELL. There is nothing for the application at all?

Mr. DEWEY. Payment for it?

Mr. GESELL. No fee?

Mr. DEWEY. Oh, no.

Mr. GESELL. You have also on this schedule five public agencies. What functions do they perform?

Mr. DEWEY. Well, they perform just the same—for instance, the Lincoln House, a settlement house in the South End. There is no savings bank anywhere near there and I suppose there are a thousand, 1,500 people in that community whose principal social headquarters is that settlement house.

Mr. GESELL. So that settlement house acts in the same capacity as the agency bank?

Mr. DEWEY. Exactly.

Mr. GESELL. Do they get a fee?

Mr. DEWEY. They do. I don't know whether they take it at the Lincoln House, but at least they are entitled to 3 percent collection fee.

Mr. GESELL. I notice there are 267 employer agencies.

Mr. DEWEY. Yes, sir.

Mr. GESELL. Will you explain what an employer agency is?

Mr. DEWEY. Well, an employer wanting to make savings-bank life insurance available to his employees, enters into an agency agreement much the same as the agency bank agreement. The employer agrees that he will receive applications for savings-bank life insurance and send them to the bank where the policies may be issued; that he will receive premium payments. He doesn't agree in the agency agreement to make weekly pay-roll deductions, but practically all of the employers do; so that I could go in, if I worked for the United Shoe Machinery Co., General Electric Co., in Lynn, or Pittsfield, the Plymouth Cordage, or any of those places, I could go into the office, the paymaster or treasurer's office and say, "I want to take some savings-bank insurance." They have the application there. I fill out the application. The examination is made by one of our examiners, sometimes the plant doctor. In a large plant frequently the plant doctor might be one of our examiners in the community. The employer sends the application to the bank. They send it back to the employer when the policy is issued and he delivers it to the employee.

Mr. GESELL. That sounds much to me like group life insurance.

Mr. DEWEY. That has the advantages—not all the advantages—but it would have the advantage of giving most of the people in the plant an opportunity for coverage that will be at low cost, but it has advantages over group. It is in my opinion a much better thing than group insurance.

Mr. GESELL. I suppose you have in mind that if a person takes out insurance through an employer agency of this kind he may take that policy with him if he changes his employment?

Mr. DEWEY. Yes; that is one very great advantage; it is his policy; he can keep paying the premiums; of course, if he is insured under a group policy he can convert that into an individual policy when he leaves the employment, but that privilege isn't much value because

he has to convert it into a higher-priced policy. This is his own policy and he keeps on with it—excuse me, it doesn't make it necessary for him to stay on that particular job to keep his insurance.

Mr. GESELL. Now I notice you have headed here too, credit unions, 50 credit unions. They act in the same way, do they?

Mr. DEWEY. Exactly the same way. Credit unions, I should say, Mr. Chairman, I don't know how widely they are spread throughout the country, but we have a lot of credit unions in Massachusetts and they are very fine institutions; they are conducted under the banking department and they lend money on the security of three, usually three, comakers, and they have grown a great deal. I happen to be the director of a small one of State employees, with their assets two or three hundred thousand dollars; they have been conducted very, very well under the supervision of the commissioner of banks, and they serve a great purpose and those credit unions—they act as agencies for savings-bank life insurance in the same way that employers do, and they receive the same collection fee.

Mr. GESELL. I wish to offer this schedule entitled "Number and Types of Agencies for Savings Bank Life Insurance on June 13, 1939," for the record.

The CHAIRMAN. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 738" and is included in the appendix on p. 4817.)

Mr. DEWEY. May I say, Mr. Chairman, that it is incorrectly said that the savings-bank life-insurance law made it unlawful for the savings banks to employ agents. It didn't at all. This shows you that we have provided opportunities, agencies for savings-bank life insurance.

Mr. GESELL. Now let me see, Mr. Dewey. Is there anything, any such thing in savings-bank life insurance as the regular life-insurance agent, as the term is familiarly known?

Mr. DEWEY. What the law forbids the bank to do is to employ solicitors, doesn't forbid them having agents, though.

Mr. GESELL. They may make connections with organizations of the type represented on this schedule, which has just gone into the record, but they may not employ soliciting agents?

Mr. DEWEY. That is it.

Mr. GESELL. There are, however, are there not, employed by the banks persons known as instructors?

Mr. DEWEY. Field instructors; two.

Mr. GESELL. Now what is the function of those field instructors? What do they do? How do they operate?

Mr. DEWEY. They go to factories and lecture to the workers and explain savings-bank life insurance to them; the detail of how they operate in particular factories depends somewhat upon the factory conditions. If it is a small factory with a couple hundred workers, the workers will probably be given half-hour or an hour on pay to come together and they will all come together, and the instructor will explain savings-bank life insurance. If it is a large factory with several thousand and a lot of different rooms and departments, the foreman will call them together, perhaps of one department at a time for a half hour or so, and it is explained to them.

Mr. GESELL. Now who employs these instructors?

Mr. DEWEY. They are State employees; they are appointed under the classified civil service, field instructors in the division of savings-bank life insurance; there are only two.

Mr. GESELL. They are then connected with the division of savings-bank life insurance?

Mr. DEWEY. Oh, indeed, they are employees in the division.

Mr. GESELL. Their expenses are included in this?

Mr. DEWEY. Reimbursement.

Mr. GESELL. This appropriation which is reimbursed?

Mr. DEWEY. Oh, yes.

Mr. GESELL. Do they work for any particular bank or attempt to sell policies in any particular bank?

Mr. DEWEY. Oh, no, indeed; not employed by the banks at all.

Mr. GESELL. Do they get any commission if they succeed in getting business for the banks?

Mr. DEWEY. Their compensation is fixed by statute under the laws of Massachusetts and does not depend in any way upon the amount of business that is directly or indirectly attributable to their work—has nothing to do with it whatsoever. As a matter of fact, one instructor today is working in Fall River. There hasn't been any instruction work done in Fall River for 15 or 20 years.

Mr. GESELL. And do I understand—

Mr. DEWEY (interposing). Excuse me. And he came up to me on Friday and said, "Mr. Dewey, there won't be any insurance written as a result, immediate result, of my work in Fall River." I said, "That is all right; you keep right on." He is going to be there for 3 or 4 weeks, just lecturing in these factories; they don't know anything about this thing, or much about it.

Mr. GESELL. I take it these instructors don't take applications themselves at all?

Mr. DEWEY. They would help you fill out your application; they wouldn't take the application, but they will help you fill it out; yes, sir. You see in each case where they do instruction work the employer has become an agency; the application would be given to the employer's office and sent in; the instructor doesn't take it at all.

Mr. GESELL. Do the banks advertise?

Mr. DEWEY. Yes, sir.

Mr. GESELL. In what manner do they advertise?

Mr. DEWEY. Well, they advertise in a variety of ways. All savings banks in Massachusetts are permitted by the commissioner—banks in the last 20 years, anyway—to do some newspaper advertising. You see, savings bank or bank advertising is not particularly striking. It says the name of the bank and the amount of the dividend being paid, and those banks which are agencies for savings-bank life insurance or issuing banks put into their regular advertisement, "We are an agency for savings-bank life insurance." The issuing banks and some of the agency banks publish advertisements which relate only to savings-bank life insurance.

Mr. GESELL. Is it true that some of the banks place literature in passbooks and leave it around in leaflet form for people to pick up and look at?

Mr. DEWEY. Oh, yes; and they have, for instance, just now they have a new thing just going out; a slip about this size [indicating]

that goes in every letter written, every mortgage interest notice; every communication to a depositor will contain that little slip which says:

Savings-bank life insurance is available at this bank; inquire about it if you are interested.

Mr. GESELL. What about radio advertising?

Mr. DEWEY. For the last 2 years and a half, I think, radio advertising has been conducted—it is now conducted by a group representing the issuing banks. That is all paid for by the issuing banks; cost about, Oh, \$10,000 for the radio advertising last year, I should say. That is not very much.

Mr. GESELL. Now may I ask if you recognize this schedule which I show you, entitled "Savings Bank Life Insurance," showing number of persons insured for the several stated amounts?

The CHAIRMAN. Before that is put in, may I ask Mr. Dewey why it was decided to prohibit solicitation?

Mr. DEWEY. Because, Mr. Chairman, that is, firstly, the largest single item of expense in providing life insurance by the companies; the largest single item of expense is commissions to agents, and you can never provide life insurance to people at what life-insurance protection needs to cost if you are going to pay 40 and 50 percent of the first premium to somebody for selling the policy. Every policy, practically every policy, I think every new policy, sold by the life-insurance companies today is sold actually at a loss to the existing policyholders. So much is paid out for agents' commissions, acquisition costs, that they have to borrow from their surplus to set up legally required reserve on that new policy, and they don't get even unless that policyholder stays in for 3 or 4 years.

The acquisition cost, the commissions to agents firstly, that item of cost. Then the commissions are so high and there are so many agents working for them that the agents themselves are bound to feel under a good deal of pressure to sell policies, and the result is the selling of policies to people frequently who don't want to buy policies; buy them under pressure, with a large resulting termination, lapses of those policies. That is expensive. That costs money, and it all has to be paid for by the policyholders.

The CHAIRMAN. Yet it is probable, is it not, that many persons are insured today who ought to be insured, and who are able to carry the insurance, but who never would have been insured had they not been solicited?

Mr. DEWEY. I have no doubt there are such cases; perhaps a great many. There is no way of determining, but, I think, sir, that it is fair to say this, that the contention that is put forward without any qualifications and justification, of the high-cost agency system is that people won't buy insurance that has to be sold to them. Now, that statement is not true, and it is not capable of being proven; it is true there is more life insurance in force in America than European countries, but there are more bathtubs, more radios, lots of things, here; people are better able to buy them. We don't know that people won't buy. The records indicate that they are buying it in savings banks, life insurance in Massachusetts, and they keep it when they buy it.

The CHAIRMAN. I gather from glancing over these exhibits that perhaps you intend to go into that subject?

Mr. GESELL. I do, Senator, in more detail, when we get to the questions of cost and mortality experience, and some of those other matters. Now, Mr. Dewey, I have asked you if you recognize a schedule entitled "Savings Bank Life Insurance," showing number of persons insured for several stated amounts?

Mr. DEWEY. Yes, sir.

Mr. GESELL. That schedule I wish to offer for the record at the present time.

The CHAIRMAN. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 739" and is included in the appendix on p. 4817.)

Mr. GESELL. How many policyholders does this schedule show that your institution has, Mr. Dewey?

Mr. DEWEY. I am not sure, Counsel, that I have a copy of that.

Mr. GESELL. It shows 82,221 policies; does it not?

Mr. DEWEY. No, sir; 82,221 policyholders.

Mr. GESELL. Policyholders?

Mr. DEWEY. That is the number of persons, this schedule here; that is the number of persons; it isn't in there, Mr. Chairman; this is the only one we have. This is the tabulation of the number of persons who were insured in savings-bank life insurance on individual policies on August 31, 1938.

Mr. GESELL. In other words, at that time you had 82,221 persons insured in the system?

Mr. DEWEY. On individual policies; that is excluding group.

Mr. GESELL. Now, of those persons insured what percentage had policies of \$500 or less?

Mr. DEWEY. 26.79 percent.

Mr. GESELL. What percent had policies of \$1,000 or less?

Mr. DEWEY. 76.41 percent.

Mr. GESELL. And what percent had policies of \$2,500 or less?

Mr. DEWEY. 86.56 percent.

Mr. GESELL. Now, I notice that there are some persons who have policies as high as \$24,000. There were 73 such persons, were there not?

Mr. DEWEY. Yes, sir.

Mr. GESELL. What is the total amount of insurance that any one bank may issue?

Mr. DEWEY. \$1,000.

Mr. GESELL. On a single person? I take it these 73 people who had policies of \$24,000 apiece were persons who had gone around to each of these banks and taken out \$1,000?

Mr. DEWEY. They hadn't gone around, but they had taken out \$1,000 policy in each bank; they can do it all in one bank.

Mr. GESELL. You mean it is possible to go to a single bank and take out any amount of insurance up to an amount equal to \$1,000 for each issuing bank?

Mr. DEWEY. Yes, sir; it was at that time.

Mr. GESELL. Those applications can all be written at a single bank?

Mr. DEWEY. Yes, sir.

Mr. GESELL. And the mechanics of distributing it among the other banks is handled by the bank itself?

Mr. DEWEY. Yes, sir.

Mr. GESELL. What is the maximum that anyone can take out at the present time?

Mr. DEWEY. At the present time the maximum is \$25,000. There are 26 banks issuing policies, but we don't allow anybody to buy \$26,000.

Mr. GESELL. I notice that the maximum persons taking out \$24,000 were .09 percent of the total?

Mr. DEWEY. Yes, sir.

Mr. GESELL. The great bulk of your policies are 76.41 percent, or \$1,000, or less, are they not?

Mr. DEWEY. Yes, sir.

Mr. GESELL. I wish to offer this schedule for the record.

Mr. DEWEY. Now, let me say that those \$500 or less include a great many \$250 policies, some 150's and 100's, but it was a matter of considerable expense to break those down below \$500; we broke those down \$500 or less, representing 26 percent.

Mr. GESELL. You have, then, a considerable percentage that are below \$500?

Mr. DEWEY. Of those less than \$500, the great majority are \$250; that is what we recommend people to buy on a child.

Mr. GESELL. Now I show you a schedule entitled "Amount of New Insurance Written and Insurance Terminated in Massachusetts During the Year 1938."

Mr. DEWEY. That schedule is in the exhibits, I think, isn't it?

Mr. GESELL. Was that schedule prepared by your organization?

Mr. DEWEY. Prepared by the State actuary.

Mr. GESELL. I wish to offer the schedule for the record.

The CHAIRMAN. It may be received.

(The schedule referred to was marked "Exhibit No. 740" and is included in the appendix on p. 4818.)

Mr. GESELL. Will you state, Mr. Dewey, what that schedule shows?

Mr. DEWEY. Well, it shows first an illustration, Mr. Chairman, of what I said in response to your question regarding the prohibiting of solicitors on commission. There is the experience in Massachusetts in the year 1938. That word "ordinary" up there means to distinguish it from industrial; this is ordinary level yearly premium.

The CHAIRMAN. What number is this?

Mr. DEWEY. It is that one before you now. That shows that in that year 1938 the 46 companies which write life insurance in Massachusetts, with the savings banks, issued, sold, and issued a total of \$293,000,000 new insurance in that year; that is the first column. The next column shows terminations, 258,000,000 terminated during the same year; and the next column shows the net gain in insurance in force.

The CHAIRMAN. The column on terminations includes all types?

Mr. DEWEY. All types of terminations—death, surrender, lapse, everything—but that is the insurance that terminated. Now, the net gain for the year was \$35,000,000. The new issues were 293,000,000. Now, the commissions on that 293,000,000—if you look in the right-hand column you will see that the gain in savings-bank life insurance that year was nearly 16,000,000; the total gain for all 47 institutions was only 35,000,000.

Mr. GESELL. So it is correct to say that no company gained as much insurance in force in Massachusetts in 1938 as did the savings banks?

Mr. DEWEY. Nobody gained as much; four companies wrote more, but nobody gained as much as the savings banks did.

Mr. GESELL. What percentage did the savings banks account for of the new issues?

Mr. DEWEY. They accounted for only 6.8 percent of the new issues.

Mr. GESELL. And what percent did the savings banks account for of the total increase in insurance in force?

Mr. DEWEY. More than 45 percent of the total increase in insurance in force was in the savings banks. Now, I was going to say, Mr. Chairman, you will notice that the gain then in the 46 companies, the total for the 47, was only 35 million. The gain of the savings banks was nearly 16 million; so that the total gained by those 46 companies was only about 20 million. Well, they paid about that much agents' commissions to sell that 293 million.

Mr. GESELL. Now going—

Mr. DEWEY (interposing). What other business could do that?

Mr. GESELL. Going on with this matter, Mr. Dewey. Will you tell us how the lapse experience of savings banks life insurance compares with the lapse experience of the companies writing business in Massachusetts?

Mr. DEWEY. Of course, the lapse ratio in savings bank life insurance has consistently been very much lower.

Mr. GESELL. Have you any figures which compare the percentage of policies lapsed to the percentage of policies issued for the savings-bank life insurance banks as compared with the companies doing business in the State?

Mr. DEWEY. Yes, sir.

Mr. GESELL. Can you give us some idea of what that comparison shows? Let's say for the period from 1927 to 1937.

Mr. DEWEY. Let me say first that our insurance commissioner's report in Massachusetts is not available for the years since 1936; the '36 report is just out now. Let me say that is not at all the fault of the insurance department. Our annual report—this is not my department; this is another department—the report is audited, the figures from the companies, their annual statements are audited by the department of insurance before they go into the annual report; that means that the annual report of our commissioner of insurance comes out about a year after the year is terminated.

Mr. GESELL. What you are saying is that your figures are based upon the annual reports and the annual reports aren't available since 1937?

Mr. DEWEY. 1936.

Mr. GESELL. Then, will you give us the figures for the period prior to 1936?

Mr. DEWEY. We will take 1927. The lapse ratio in industrial companies was 58 percent; in the ordinary companies, the ordinary business, you understand, Mr. Chairman, the distinction between industrial insurance, weekly premium insurance, and the so-called annual or annual.

The CHAIRMAN. Yes; that is understood.

Mr. DEWEY. I am sorry if I assumed too much. In the ordinary the lapse ratio was 24 percent, in the savings banks it was 93 hundredths of 1 percent.

Mr. GESELL. Now, I take it when you say lapse ratio you mean the relationship between the percentage of policies lapsed to the policies issued during the year?

Mr. DEWEY. That is the basis used.

Mr. GESELL. Those are figures used by the commissioner of insurance in the State of Massachusetts?

Mr. DEWEY. Yes, sir; that is one method of termination, lapse.

Mr. GESELL. How do those figures reflect these for subsequent years?

Mr. DEWEY. Well, in 1930 the lapse ratio in the industrial business was 74.91 percent. In the ordinary business it was 32 percent; in the savings banks it was 1.2 percent. In 1932 the lapse ratio on the industrial was 107 percent. They lapsed more than they wrote that year. The lapse ratio for the ordinary was 42, and the lapse ratio for savings banks was 2.63.

In 1936 the lapse ratio in the industrial was 34.52 and the ordinary 29.9, and in the savings banks 1.25 percent.

Mr. GESELL. Now, may I ask you this: Is there any reason—is one of the reasons why the lapse ratio of the savings bank life insurance reflects itself better than these other companies the fact that it pays surrender values at a much earlier period than the ordinary companies do?

Mr. DEWEY. Yes, sir; that does help account in part for it.

Mr. GESELL. How long must I have a policy in force in savings bank life insurance before I have a surrender value?

Mr. DEWEY. Every policy issued by the savings banks has a cash surrender value of the full legal reserve, without any surrender charge after 6 months' premiums have been paid.

Mr. GESELL. Is that written into the statute?

Mr. DEWEY. That is required by the statute, but in addition to the requirement of statute, when we were getting out new policy forms November 1, the State actuary said to me, "We don't have to wait 6 months to give a surrender value; we can give a surrender value any time after the policy is issued." It wouldn't be quite fair to give the full legal reserve immediately after the policy is issued, because the medical fee for writing that policy is \$2 for examining the applicant, and we could have done it all right, but it would have meant that these applicants who dropped out within a month were getting a little something that somebody else paid for, so we make a surrender charge of \$2 if you surrender the policy within 6 months; that is, it begins with \$2.

Mr. GESELL. And after 6 months you get the full reserve?

Mr. DEWEY. Full reserve; but you have a surrender value at any time after the policy is issued if the reserve is more than \$2.

Mr. GESELL. Now, how does that compare with the companies operating in Massachusetts? What is the usual period within which a policy must be in force before some surrender value accrues to the policyholder?

Mr. DEWEY. Well, the laws of Massachusetts, and I think New York, other States, require that the standard ordinary form—statutes in those States, in Massachusetts and the other States, have what we call, not irreverently, the "ten commandments," 10 things that must be in the standard form; one thing is a loan value and a cash surrender value after 3 years' premiums have been paid.

Mr. GESELL. So that is the customary procedure in the companies?

Mr. DEWEY. That is the requirement but I think quite a number of the companies are now giving a cash surrender value after 2 years, some of the better ordinary companies, but let me say that that surrender value is subject to a substantial surrender charge.

Mr. GESELL. You mean that the companies do not give the entire legal reserve?

Mr. DEWEY. They give—it says in the books “full reserve allowed, minus surrender charge,” for instance.

Mr. GESELL. For what period do the companies make a surrender charge, generally speaking? Is it around 10 to 20 years?

Mr. DEWEY. Well, I should say, in fairness to those companies which are doing better on that thing, that it ought to be looked up and ought not to be taken as a general observation. Some of them are now giving or discontinuing surrender charges within, oh, early years. The Metropolitan in their ordinary department, their surrender charge is $2\frac{1}{2}$ percent of the face of the policy, disappearing at the end of 20 years. Now quite a number of them have the surrender charge disappear earlier than that, but you could see how that would affect what the person would get back. Suppose the reserve at the end of 3 years is \$33 on the Metropolitan policy. You get that full legal reserve minus surrender charge, $2\frac{1}{2}$ percent of the face of the policy. Now $2\frac{1}{2}$ percent sound small, but $2\frac{1}{2}$ percent of \$1,000 face of a policy is \$25, so that if you had that \$33 reserve on that Metropolitan policy you would get \$33 minus 25; you would get \$8. If you had it on a savings-bank life insurance policy the reserve would be just the same. We are all on the same reserve basis, but you would get the \$33, not minus \$25. You would get \$33 instead of \$8.

Mr. BALLINGER. Is the reason your policies have an immediate surrender value attributable principally to the fact that you don't pay any agents' commissions?

Mr. DEWEY. Yes, sir; and we have that money.

Mr. GESELL. The only expense you have to make allowance for is this \$2 medical expense, is it not, and as soon as the reserve is sufficient to take care of that you pay the full reserve back when the policy is surrendered?

Mr. DEWEY. Of course, there is a little expense. There is the printing of a nice policy form and some few things of that type, but the principal item is the \$2 medical fee, and we make enough profit on them to get that \$2 back in 6 months.

Mr. BALLINGER. In previous testimony they have emphasized the considerable cost in setting up this reserve against each policy. That also was one of the reasons they had to advance the time for surrender value.

Mr. DEWEY. There is no expense about setting up the reserve. The table tells what the reserve is. There is no expense about setting it up at all. It just is automatically there. The insurance commissioner makes you put it up as a bookkeeping liability; that is all.

Mr. GESELL. I show you a schedule entitled “Relative proportions of amounts of insurance terminated by lapse and surrender in Massachusetts savings banks and in Massachusetts insurance companies, 1911-38.” Do you recognize that schedule as a schedule prepared by

the actuary of the savings-bank life-insurance division of Massachusetts?

Mr. DEWEY. Yes, sir.

Mr. GESELL. Am I correct in stating that this schedule shows as 100 percent the total lapses and surrenders of the companies and has divided that amount of termination by allocating what percentage went to lapse, what percentage went to surrender?

Mr. DEWEY. Yes, sir.

Mr. GESELL. I wish to offer the schedule for the record.

The CHAIRMAN. The schedule may be received.

(The schedule referred to was marked "Exhibit No. 741" and is included in the appendix on p. 4819.)

Mr. GESELL. Have you any comments to make on that schedule?

Mr. DEWEY. Just that I think it is perhaps significant of the different treatment that the policyholders get. In the industrial business of 100 terminations, 64 of them are lapses. You understand, gentlemen, a lapse is a forfeiture. A lapse doesn't mean just a policy where you have stopped paying premiums. It is frequently used that way somewhat loosely, but in the report of the insurance commissioner and in insurance circles a lapse is a policy where you have discontinued paying premiums before you could get back any cash or any paid-up or extended insurance. It is a forfeiture, except for such protection as you had up to that time.

The CHAIRMAN. Lapse does not include surrenders?

Mr. DEWEY. No; lapse means where you stop paying before you can get anything.

To finish answering your question, in the industrial companies in 1937 of 100 terminations of these 2 classes 64 were lapses and only 36 were surrenders; on the surrenders they got something back. In the ordinary business, the nice business, 54 out of 100 were lapses and 46 were surrenders, a little better than the industrial, you see. The ordinary policyholder gets treated better than the industrial all the way around.

Then in savings-bank life insurance, out of 100 terminations only 10 were lapses and 90 were surrenders. Those lapses don't occur with us at all, because if you pay a 1-month premium and then discontinue, then the policy is a lapse, but if you keep on for 6 months it can't become a lapse. You get something back when you quit.

The CHAIRMAN. In other words, whenever the reserve is more than \$2 there is no lapse.

Mr. DEWEY. There can't be a lapse there; no, sir; after 6 months there can be no lapse. There can be no forfeiture after 6 months.

Mr. GESELL. What about your policy terms; are they just the same as the old-line companies, or are they more strict or more liberal?

Mr. DEWEY. They contain, they have to contain under the law all of the things required by statute for standard ordinary-form legal-reserve policies, but in certain particulars, particularly in those which we have just discussed, they are more liberal. The law requires a 3-year cash value and we give one in 6 months; the law requires a 3-year loan value and we give one in a year, and we give these without any surrender charges. Those are the particular provisions in which the policy is more liberal than the standard ordinary form.

The CHAIRMAN. Mr. Gesell, I assume you have gathered a complete file of all these various forms, have you not?

Mr. GESELL. Yes; we have. I didn't want to burden you with that.

The CHAIRMAN. I wanted to be sure they are available.

Mr. GESELL. They are available to the committee.

Mr. Dewey, to get me straight on one thing, these savings banks write participating insurance, do they not?

Mr. DEWEY. Only.

Mr. GESELL. There is no nonparticipating insurance?

Mr. DEWEY. No. Under the law of Massachusetts you are not supposed to write both participating and nonparticipating. I notice some of them are doing it a little bit. This is a mutual undertaking and writes only participating insurance.

Mr. GESELL. What about policy loans? Can a man who has a policy in a savings bank borrow?

Mr. DEWEY. He can borrow the full legal reserve without any surrender charge being deducted from it, and we have always loaned at 5 percent, that was until recent years. The practice of the companies was to loan at 6 and we have always loaned at 5. Until recent years 5 percent was about what the policyholder's money would earn. If interest rates continue down as they are, we will make a further reduction in policy loan interest rates.

Mr. GESELL. May I ask how the mortality experience of the savings banks has compared with the mortality experience of other companies operating in the State of Massachusetts?

Mr. DEWEY. By those operating in Massachusetts, you mean not their Massachusetts business but their business all over America?

Mr. GESELL. Yes.

Mr. DEWEY. Well, the mortality experience in the savings banks has been very much more favorable than the experience of the companies over this entire period of 30 years since the system was established.

Mr. GESELL. Is the difference between the experience of the companies writing ordinary insurance and the companies writing industrial insurance, savings-bank life insurance, demonstrated on this schedule entitled "Mortality Experience of Massachusetts Savings Bank Life Insurance Compared With Life Insurance Companies"?

Mr. DEWEY. Yes, sir; that was prepared by the State actuary.

Mr. GESELL. It is correct, then?

Mr. DEWEY. Yes, sir.

Mr. GESELL. This schedule shows that in 1910, for example, the ratio of actual to expected mortality for the savings banks was 30.84 percent; for the ordinary insurance companies, 70.63 percent; and for the industrial companies, 104.49. Is that right?

Mr. DEWEY. Yes, sir.

Mr. GESELL. Have you any comments which you wish to make on this schedule?

Mr. DEWEY. My only comment on the schedule would be, firstly, that it shows from 1910 to 1938 for each year of the period a lower percentage of actual to expected mortality in the savings-bank system than there was in the ordinary companies or in the industrial companies.

Mr. GESELL. Do you use the same mortality table?

Mr. DEWEY. We are required by law to use the American Experience Table, old 1860.

Mr. GESELL. These figures come, do they not, from the reports of the insurance commissioner of Massachusetts?

Mr. DEWEY. They are taken from a public document, the report of the insurance commissioner.

Mr. GESELL. I offer this for the record.

The CHAIRMAN. It may be received.

(The table referred to was marked "Exhibit No. 742" and is included in the appendix on p. 4819.)

Mr. DEWEY. I would like to make this further comment, that this schedule includes the years 1917, 1918, and 1919, and one of the—not criticisms, but one of the constant statements made by the life-insurance men about savings bank life insurance in the early years was that its mortality would get higher and that if there was an epidemic or anything of that sort the thing probably wouldn't stand.

Mr. GESELL. And the experience of the savings banks during that time of the influenza epidemic was as satisfactory as that of the other companies?

Mr. DEWEY. 1918 was the flu epidemic. I was saying, Mr. Chairman, that dire things had been predicted for savings bank insurance if there ever was an epidemic in Massachusetts, and the epidemic came, the flu in 1918. Our mortality experience was 77.9 percent of what the American Experience Table said would occur, 77 percent. The ordinary companies' was 96 percent and the industrial companies' 142 percent. That is on schedule No. 6, the year 1918.

Mr. GESELL. I might call to the attention of the committee that there was introduced into the record yesterday "Exhibit No. 730," being a letter from the statistician of the Association of Life Insurance Presidents to certain members dated February 28, 1935, with respect to the savings-bank bill in the State of New Hampshire.¹ The letter states as follows, bearing on this point:

Maj. Robert P. Burroughs, special agent of Manchester, N. H., of the National Life Insurance Co. of Vermont, who was active in the opposition of this measure, has suggested that we request the actuaries of several companies to write him with respect to the actuarial defects of a proposal of this nature. He has particularly in mind that any life insurance originating from such a small geographical area could not place the usual reliance in mortality averages, with the result that any local epidemic might be disastrous.

It is that type of criticism to which you referred a moment ago?

Mr. DEWEY. Yes; and I would like to comment there.

The CHAIRMAN. Of course, that wasn't a local epidemic.

Mr. DEWEY. Oh, no; but these companies were operating there in Massachusetts also. I should like to say in passing a word as to what I said about the desirability of the actuary being free and independent. I don't know what occurred as a result of this thing, but here were the actuaries, or the companies asking the actuaries to write a particular type of statement—no suggestion that they investigate the facts and find what they would be, but here was a political campaign in New Hampshire against the savings-bank life-insurance bill, the actuaries

¹ See appendix, p. 4810.

of the companies being asked to state as actuaries that the mortality experience would be bad.

Mr. GESELL. I take it the point you wish to make is that you feel there are advantages in the actuary being free from underwriting or political influence.

Mr. DEWEY. Yes. I don't think it works out badly, for the actuaries are a pretty fine lot, but I think it is nice for them to be free.

(Representative Reece assumed the Chair.)

Mr. BLAISDELL. May I ask a question? I wonder if the witness would care to indicate whether the schedule as he has submitted it reflects the fact that apparently in the State of Massachusetts the mortality experience has been better than the mortality experience for the country at large.

Mr. DEWEY. I should think in part so, sir. We haven't any quick answer to the frequently made query as to why our mortality is lower than that of the companies. It is a matter that has concerned the companies a good deal, and we haven't a short answer to it—it involves a lot of things. We think that it is in part due to the fact that general conditions under which people live, particularly the masses—because that is what makes up every life-insurance company's business; we read about somebody with a million dollars of life insurance, but no company could live on that; it is the masses which make up the volume of every life insurance institution—and particularly the conditions under which they work are, I won't say better in Massachusetts than in any other State, but I think as to matters affecting their health and their safety at work they are better than in the average States. I have had some talk about that matter with persons in the department of public health and Harvard Medical School. It is a matter of some interest to them why we should have this long experience of lower mortality. The department of public health told me, for instance, that 98 percent of the people in Massachusetts have access to drinking water which is certified by the department of public health. A lot of those things exist. We had an early industrial accident law in Massachusetts and conditions in the factories there for avoiding occupational diseases and hazards and things of that sort are pretty well taken care of in Massachusetts. I haven't any doubt that that is one factor. I think this may be another factor—I wouldn't undertake to estimate the relative value, but I think there is some advantage in the fact that the chief medical officer of our system is entirely free of those who are interested in writing the policies. That may be in part, I think that probably is, a factor.

Mr. BLAISDELL. That is, there is a selection to a certain extent.

Mr. DEWEY. The rules of acceptability are the same.

Mr. BLAISDELL. Yes; I understand.

Mr. DEWEY. For instance, before I left my office day before yesterday, a person high—not way high but fairly up in the State government—called me up and said, "There's a gentleman in my office now who has been declined by your State medical director for \$2,000. Can't we do something about it?"

And I said, "No."

"Well," he said, "Dr. Burnett" (the State medical director) "is in your department."

I said, "Yes." I said, "I have never told Dr. Burnett that I wanted him to take somebody that he didn't want. I don't know what he

would say, I can imagine what he would say. He is entirely free to say it because he is not even under my control; he is the State medical director; he is responsible to the trustees, not to me, and he is not subject to pressure to accept a risk that he doesn't want." I think that may make a difference, because there might be pressure, which there no doubt is, from those who are interested in getting the policy written.

Mr. GESELL. It goes back again, I take it, to the fact that there isn't the underwriting pressure that you feel may exist in some other companies?

Mr. DEWEY. Yes. For instance, in many of the companies, there is an underwriting committee; that underwriting committee includes representatives of the business. The only underwriting committee we have is the State medical director; he tells whether the risks are all right or not.

Mr. GESELL. Mr. Dewey, have you had prepared by the State actuary a comparison between the interest earned by the savings banks in Massachusetts with the interest earned by all insurance organizations, including savings bank life insurance, from 1920 to 1938? Is that the schedule?

Mr. DEWEY. Interest earned by the insurance departments of the savings banks; yes, sir.

Mr. GESELL. I wish to offer that schedule for the record.

Acting Chairman REECE. It may be admitted.

(The schedule referred to was marked "Exhibit No. 743" and is included in the appendix on p. 4820.)

Mr. GESELL. That shows, does it not, that for the year 1920 the savings bank life insurance departments earned a net rate of income of 5.58 and all organizations 5.03. Generally, since that time the savings banks have had a better earning record, have they not?

Mr. DEWEY. They have had consistently a better earning record. That is the insurance departments, the life insurance departments of these savings banks in Massachusetts earned a higher net rate of return on their invested funds than the average of the life-insurance companies were able to do during any of that period.

Mr. GESELL. To what factors do you consider that attributable?

Mr. DEWEY. I should suppose in the first place a perfectly natural reason why it should be true is that the trustees of savings banks, say the little Whitman Savings Bank with assets of five or six million and with premium income of a few hundred thousand, can do a better job investing that sum of money than anybody can do with two or three or four millions dollars a day; I should suppose just reasonably that that would be so.

Mr. GESELL. You mean you feel they don't have as much money to place out in investments from day to day and therefore it is possible for them to have a greater range in which to exercise their discretion?

Mr. DEWEY. Well, no; not that; not greater range but they can devote more time and attention to the particular investments, they can make sure of the quality of them. When you go to a savings bank in Massachusetts to get money on a mortgage, it is not a \$20,000,000 mortgage, it is probably a \$1,500 or a \$3,000 mortgage. The persons in that savings bank who would consider the application, in a great majority of cases, will know the man applying for the mortgage,

they will know what kind of person he is, they will go and look at his house, they know whether he pays his bills or keeps his cellar clean, they know what kind of person they are dealing with.

Mr. GESELL. These banks have invested more in the locality around them and therefore have better acquaintance with the nature of the investment, the nature of the borrower.

Mr. DEWEY. That would be true of their real-estate mortgages.

Mr. GESELL. May I ask whether the insurance departments of the savings banks are limited to the same investments which the insurance companies are limited to?

Mr. DEWEY. They are more strictly limited.

Mr. GESELL. Will you explain that? I take it that you mean the savings-bank insurance departments are more strictly limited.

Mr. DEWEY. Yes, sir. The insurance departments of the savings banks of Massachusetts—it is the same for New York but I am talking about Massachusetts—are restricted to the same class of investments that are legal for the savings deposits, what we call in Massachusetts the legal list. It is a list that is legal investment for savings deposits, and those are of such a character that, for instance, a trustee can invest in the "legals" without specific authorization from the court; if he invests outside of the legals he takes his own risk. It is the so-called legal list for trust funds, savings-deposit funds in Massachusetts. Now the insurance departments, as to every dollar of their assets, both reserve and surplus, are restricted to the legal list. The life-insurance companies operating under the laws of Massachusetts are restricted to not exactly the same but a similar list, but they are restricted only as to an amount equal to three-quarters of their reserve. The remainder of the reserve and the surplus are not so restricted. But notwithstanding that more restricted class of investments, the savings banks have earned consistently a higher rate of return than insurance companies have earned.

Mr. GESELL. I would also like to ask you if you can identify the schedule entitled "Expense of operation, percent total expenses are of premium income in savings bank life insurance, 1920 to 1938." Was that schedule prepared by the actuary?

Mr. DEWEY. Yes, sir.

Mr. GESELL. I wish to offer it for the record.

Acting Chairman REECE. It may be admitted.

(The schedule referred to was marked "Exhibit No. 744" and is included in the appendix on p. 4820.)

Mr. GESELL. Mr. Dewey, this would indicate that at all times from 1920 to 1937 the percent of expenses to premium income of the insurance departments of the savings banks has been considerably lower than that for either ordinary or industrial insurance.

Mr. DEWEY. Yes.

Mr. GESELL. To what do you attribute the fact that the expense percentage is lower in the case of savings-bank insurance?

Mr. DEWEY. Of course, the largest single factor is the absence of agent's commissions, but that is not the only thing; that is the elimination of the largest single item of expense that there is in the life-insurance business.

Mr. GESELL. Do you think that accounts for the entire difference between, say, what we had in 1937 of 7.16 percent for the insurance

departments of the savings banks as against 14.13 percent of the ordinary companies and 25.32 percent for the industrial companies?

Mr. DEWEY. No; that doesn't account for it all.

Mr. GESELL. What are the other factors, then?

Mr. DEWEY. Well, I would say that it is a more—well, I don't want to make comparisons, but it is conducted very frugally. It is not necessary to have a lot of expenses connected with life-insurance business. For instance, the little Canton Institution for Savings becomes an insurance bank. It is frequently difficult for people—life-insurance people criticize savings bank life insurance, think the expenses are too low. The Canton Institution for Savings, a little \$3,000,000 savings bank, becomes an issuing bank. The officers of that bank who direct it are the president, who comes every morning, a treasurer who is a full-time employee, and when they opened their insurance department, the secretary who is also the paying teller takes care of it—just a teller's window. It is a small bank, a good one; it has been there a hundred years or so.

Mr. GESELL. I take it, what you are trying to say is that you have been successful in savings bank life insurance in keeping the overhead at a minimum.

Mr. DEWEY. Yes.

Mr. GESELL. It isn't necessary when a bank enters into the system to build a new building, to appoint many new employees.

Mr. DEWEY. In only one case in all the 30 years has any space been added to a bank for the insurance department.

Mr. GESELL. We heard a great deal yesterday about the difference in taxation as between the taxes on savings bank life insurance and the taxes on insurance companies. Will you explain to us first whether there is a differential, and if there is, what that differential amounts to?

Mr. DEWEY. Unless the legislature since I left has passed a bill that we urged them to pass 4 or 5 days ago, the tax basis is somewhat different.

Mr. GESELL. What if they passed the bill?

Mr. DEWEY. Then it would be exactly the same.

Mr. GESELL. Do I understand you have urged before the legislature just recently that the taxes be made exactly the same?

Mr. DEWEY. Yes.

Mr. GESELL. Your lobbying has been in the direction of higher taxes then, Mr. Dewey?

Mr. DEWEY. Yes.

Mr. GESELL. What is the differential at the present time, assuming this new bill is not passed?

Mr. DEWEY. When the savings bank—

Mr. GESELL. I beg your pardon; what is the differential in amount before you discuss it?

Mr. DEWEY. I can't give you any rate of differential, it isn't a matter of rate.

Mr. GESELL. Have you made any computations to determine what the amount would be if you had to pay these new taxes, to put you on an even basis?

Mr. DEWEY. Yes; if we had been taxed last year on the same basis as the companies, the difference would have been that 19 banks out

of the 24 would have paid a higher tax, 5 of the banks would have paid a lower tax, and the total difference would have been about \$10,000.

Mr. GESELL. Now, will you tell us the nature of the differential that exists?

Mr. DEWEY. Yes. When the system was established it was provided, as I told you, that the investment of the insurance department should be in the same class of securities as the savings department. It was therefore provided that they should be taxed on the same basis as the savings department. It was probably thought a matter of convenience not to have two investment policies because of two different bases of taxation, so it was provided that the two departments should be taxed on the same basis. The insurance companies in Massachusetts are taxed on an excise tax. It is measured by the reserve, it is not based upon the nature of the investments at all. It is an excise tax of a quarter of 1 percent, based upon the amount of the reserve. That tax was first established in the eighties. When it was originally enacted it was a tax of $\frac{1}{2}$ percent. The companies contested the constitutionality of it but the constitutionality was upheld and then the rate was changed to one-quarter of 1 percent and that has been the basis ever since.

Our tax is a property tax of one-half of 1 percent but real-estate mortgages are not taxed to the holder and other tax-exempt securities are not taxed, and so it would work out that while the tax rate was higher on savings bank life insurance than it was on the companies, the actual amount paid would be somewhat less for a given amount of assets. So as I said in response to Mr. Gesell's question, last year if we had been taxed on the same basis as the companies, the tax would have been about \$10,000 more. It would have been about sixty thousand instead of about fifty—some such proportion as that.

Mr. GESELL. And some banks actually would have had to pay less taxes, would they not?

Mr. DEWEY. Yes.

Mr. GESELL. May I ask you on this question of lobbying, do the savings bank life insurance groups attempt to stir up their policyholders to participate in legislative matters?

Mr. DEWEY. We haven't at any time felt that we ought to communicate with the policyholders on matters of legislation. I don't say that I wouldn't sometime if a proposal were made that I thought affected the safety of the policyholder system, I think I would want them to be advised; I mean some proposal, for instance, like that relating to the State actuary which the insurance companies proposed the past year. They want to get the State actuary and the medical director out of State employ and have them run by somebody else. A proposal of that sort if seriously considered, that would affect the welfare of the policyholders directly, I think there I would feel I ought to tell them it was going on.

Mr. GESELL. You have never told them or brought to their attention any legislation to date, have you?

Mr. DEWEY. No. I don't mean that the policyholders haven't known. I will say we have never communicated with the policyholders as such, we have never allowed anybody to have a list of them for the purpose of publicity, not even one bank to have the list of an-

other. We have told the public over the radio, for instance last year, that there was a bill proposing to limit the amount of savings bank life insurance anybody could buy to \$3,000. We told the public over the radio about that and I have no doubt a lot of policyholders heard it, but we have never used the policyholders in any way in connection with legislation up to now.

Mr. GESELL. I believe, Congressman Reece, this would be an opportune time to recess until after lunch.

Acting Chairman REECE. The committee will stand in recess until 2:30.

(Whereupon, at 12:30 noon, a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

The committee resumed at 2:40 p. m. on the expiration of the recess. Acting Chairman WILLIAMS. The committee will be in order.

Mr. GESELL. Will you resume the stand please, Mr. Dewey.

TESTIMONY OF JUDD DEWEY, DEPUTY COMMISSIONER OF SAVINGS BANK LIFE INSURANCE IN THE STATE OF MASSACHUSETTS, BOSTON, MASS.—Resumed

Mr. DEWEY. Mr. Chairman, this morning in referring to No. 6 of the file of papers that have been filed with you—

Mr. GESELL. That is the schedule of mortality experience,¹ is it not?

Mr. DEWEY. Yes, sir. That schedule, Mr. Chairman, gives the comparative rates of mortality experienced by savings banks life insurance and by the ordinary life insurance companies and by the industrial companies. It gives the record of their so-called mortality experience. I did not point out as I should, and my attention has been called to it, that industrial insurance is written on a different mortality table from that used by the savings banks and by the so-called ordinary companies. The result was that it makes it appear that the industrial mortality experience was lower than the experience of the ordinary companies. The explanation is that they use the so-called standard industrial table for computing mortality which assumes a higher death rate.

Mr. O'CONNELL. Is it also true that the columns entitled "All ordinary insurance, including savings bank life insurance," and the industrial column involve insurance throughout the country at large?

Mr. DEWEY. Through the country at large.

Mr. O'CONNELL. And the first column relates only to Massachusetts?

Mr. DEWEY. Yes, sir; that is right.

Mr. O'CONNELL. So I take it that that has some significance, though I don't know exactly what it would be.

Mr. DEWEY. We have a few policyholders in other States who became insured when they lived in Massachusetts and have moved away, and we might have had a death among them, but it is entirely Massachusetts mortality experience.

Mr. O'CONNELL. There wouldn't be any experience in these other fields in Massachusetts only?

¹ See "Exhibit No. 742," appendix, p. 4819.

Mr. DEWEY. There is no record so far as I know of mortality by States alone. I don't think the companies keep that.

Acting Chairman WILLIAMS. Perhaps you have given this. Are there any other savings-bank life insurance outside of Massachusetts?

Mr. DEWEY. New York State began operations this year, but has not had a full year's experience, so their mortality figures would not be available.

Mr. GESELL. There are one or two points that I want to cover for a moment, Mr. Dewey, that may involve some of the matters we considered during the morning session. First of all, I didn't ask you whether policyholders in savings-bank life insurance in Massachusetts must be residents of Massachusetts.

Mr. DEWEY. They must be residents of Massachusetts or their regular employment must be within Massachusetts. We got the statute amended in 1915 because along the border, for instance in Newburyport, quite a number of people work in those factories every day and go across the river to their homes in the little New Hampshire villages and the employers wanted to insure all of their workers, of course, in the same way; so the statute was amended to include not only residents of Massachusetts but persons regularly employed in Massachusetts. Other than that, it is limited to Massachusetts residents.

Mr. GESELL. Now, can you give us some idea of the type of person who takes out a policy with savings-bank life insurance? I presume you must have many types, and I mean to direct my question primarily to the average policyholder.

Mr. DEWEY. That might be indicated in part, Mr. Chairman, by the figures given showing the relative number of persons holding insurance in certain stated amounts.¹ For instance, 26.7 percent of all the persons insured have \$500 or less; that would probably indicate persons in the relatively low-income groups. Then some 80 percent—

Mr. GESELL (interposing). 76.41 percent are below \$1,000.

Mr. DEWEY. One thousand dollars or less. That includes the ones with \$500 or less, so that more than three-quarters of them have a thousand dollars of insurance or less than a thousand. That costs not very much at the lower ages, of savings-bank life insurance, and that is consistent with their being in the lower-income groups. We don't any longer keep a record tabulated of the policyholders by employment classifications, so that I can't give you that.

Mr. GESELL. When you did keep such a record did you find that you touched almost every employment classification?

Mr. DEWEY. We had, of course, practically all of the different kinds of employment; teachers are included, and workers of almost all kinds, but relatively the low-income group.

Mr. GESELL. Just out of curiosity, Mr. Dewey, do you have any life-insurance agents or life-insurance executives who have taken out policies in savings-bank life insurance?

Mr. DEWEY. Oh, yes, indeed. We are very glad to have them as policyholders.

Mr. GESELL. On the schedule entitled "Expense of Operation"² I neglected to ask you whether the percent ratio shown for savings-bank life-insurance banks included some pro rata accounting by the banks as between its insurance and savings-bank departments.

¹ See "Exhibit No. 739," appendix, p. 4817.

² See "Exhibit No. 744," appendix, p. 4820.

Mr. DEWEY. Expense of operation; well, that first column giving savings-bank life insurance, that is all of the expenses of the savings insurance banks for running their insurance departments, and it includes also the entire reimbursement of the State appropriation; that is all operating expense.

Mr. GESELL. But in computing this expense, does each bank adjust for the amount of its office space which is used for insurance purposes, the amount of its office space which is used for banking purposes, and make divisions between other physical properties which are involved?

Mr. DEWEY. Yes; that is left under the statute to the trustees of the savings bank. The law says that they shall allocate the expenses. Now, the direct expenses of conducting the insurance department are paid directly out of the insurance-department funds. Overhead expense is allocated by the trustees of the bank.

Mr. GESELL. On the basis of operations?

Mr. DEWEY. Well, on the basis of their judgment as to what the allocation ought to be.

Mr. GESELL. The charge has been frequently made, has it not, that the savings banks are carrying some of the insurance expense? Is that true or false?

Mr. DEWEY. Well, I don't like to characterize anything as being false, but substantially that statement is false.

Mr. GESELL. I take it then—

Mr. DEWEY (interposing). I mean I will say this, sir, that as an explanation of any difference in cost, it is entirely false. The banks in the first place—when a bank opens an insurance department it doesn't start with a lot of expense. It hangs up a little sign over one of the teller's windows saying "Savings-bank life insurance," and the people who are interested in savings-bank life insurance go to that window. They haven't incurred any expense. In only one instance in 30 years has a bank added any space to the building for savings-bank life insurance. That is the Whitman Savings Bank, and the rent charged to the insurance department in the Whitman Savings Bank is more—not much more, only \$75 more—but it is more than the rent charged for the savings department.

Mr. GESELL. Now can you tell me whether it is a fact that there is always a medical examination in connection with any policyholder?

Mr. DEWEY. Every individual policy that we issue is issued only after medical examination.

Mr. GESELL. Now, when do you first commence to pay dividends—after the end of the first policy year?

Mr. DEWEY. Every policy that ever was issued by a savings bank in Massachusetts has paid a dividend every year that it was outstanding, including the first.

Mr. GESELL. Now, if I have a policy in savings-bank life insurance, can I pay for it on a monthly or weekly basis, or must I always pay for it on a yearly basis?

Mr. DEWEY. We have no premium on any basis for more frequent payment than monthly. We have premiums payable annually, semi-annually, quarterly, and monthly, but as a practical matter, what concerns the payer of the premium is how frequently he has to part with the money, and arrangements are made—for instance, in our 300 employer agencies, the larger factories, Mr. Chairman, which I explained this morning, for the making of weekly pay-roll deduc-

tions, the employer at the request of the worker, by a card filed with the paymaster, makes a pay-roll deduction for as many employees as want it done, and he then writes one check for all of the weekly pay-roll deductions for that week and sends it to the local agency bank, and they deposit it to the account of the policyholder, so that they pay weekly by pay-roll deductions. There is another thing about that, sir, and that is that where they are buying \$250 of insurance on a child, that is frequently costing them 25 cents a week in the industrial insurance company, well, they can get a straight life \$250 in a savings bank for 26 cents a month, so they can pay a monthly premium of 26 cents, where they have been paying weekly 25 cents and that is no particular inconvenience.

Mr. GESELL. It is also possible for a person who has an account in a savings bank to make arrangement with that bank to make withdrawals from the account at periodic intervals to meet premium payments?

Mr. DEWEY. That is regular practice, they are called savings insurance accounts; you might put \$1 a week in your savings account and that goes on interest; you leave a card there saying to pay your insurance premium out of that savings account, and if the premium is payable monthly, then once a month the savings bank will take the premium out of the savings account; the rest of it stays in the savings account and draws interest. In such cases they will frequently have the dividend check sent to the savings bank to be deposited in the savings account also.

Mr. GESELL. Now I would like to call your attention to a chart schedule, entitled, "Illustration of 10 Years' Experience—Issues of 1929, \$1,000 Straight Life Insurance, Age 35," and ask you whether that is a schedule which was prepared by the chief actuary of the savings-bank life-insurance division of Massachusetts, reflecting the net cost of savings-bank life insurance as compared to a representative number of companies.

Mr. DEWEY. Yes, sir.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman WILLIAMS. It may be admitted.

(The schedule referred to was marked "Exhibit No. 745" and is included in the appendix on p. 4821.)

Mr. GESELL. Now, I notice that the average net cost ranges from \$2.74 a thousand for the savings bank life insurance to \$8.73 a thousand for the Berkshire Life Insurance Co.?

Mr. DEWEY. Yes, sir.

Mr. GESELL. Will you tell us what the basis of the selection of the companies shown on this schedule is?

Mr. DEWEY. Well, we took all, this schedule, by the way, is not specially prepared for this occasion; it is our regular 10-year net-cost comparison, which we have been putting out from time to time for the last 20 years. Every time it is got out new it includes all of the companies for which the dividend schedule is then available.

Mr. GESELL. There has been no particular basis for selection other than the availability of the dividend schedules then?

Mr. DEWEY. No. We wouldn't make it up unless all of the principal companies, the larger companies, were all available, and you will find they are all included in here.

Mr. GESELL. Now, the way you have computed this net cost on the 10-year basis is, I take it, based upon past experience?

Mr. DEWEY. In this one it is. We have a schedule that is based upon—

Mr. GESELL (interposing). I will come to that schedule.

Mr. DEWEY. This is based on actual experience; yes, sir.

Mr. GESELL. The method of computation should be described. Will you describe it, please?

Mr. DEWEY. Yes, sir. The purpose of this is to show the figures as to the cost of life-insurance protection over a period of years, in this case, 10 years; to determine that you take the amount of money that you pay in minus the amount of money that you get back, and that is what it has cost you for the protection.

Mr. GESELL. You take the annual premium first of all?

Mr. DEWEY. Yes, sir.

Mr. GESELL. Then you say what 10 times that premium would be?

Mr. DEWEY. Yes, sir.

Mr. GESELL. That would be the premium for the 10-year period. Then you make adjustment for the dividends over that 10-year period?

Mr. DEWEY. We subtract the actual dividends.

Mr. GESELL. Then, in addition, you subtract the cash value which would be available at the end of the 10-year period, do you not?

Mr. DEWEY. Yes, sir.

Mr. GESELL. And the resulting figure is the net-cost figure for 10 years, and then you divide that by 10 to show the average net cost per year?

Mr. DEWEY. Yes, sir, that means, in savings-bank life insurance at age 35, over this 10-year period, you could have carried \$1,000 of life-insurance protection at an average cost of \$2.74 a year for the thousand dollars of protection.

Mr. GESELL. I notice that the top company on the list under the banks is the Northwestern Mutual which has an average net cost of \$4.60 per thousand, as compared with \$2.74 per thousand for the banks. Is the Northwestern Mutual the lowest net cost company which your studies have revealed?

Mr. DEWEY. At the time this was prepared the Northwestern was the lowest on this comparison. They are usually at the top, what we call the position of honor next the savings banks; the Northwestern Mutual, the National Life of Vermont, Provident Mutual. The New England is pretty well up also.

Mr. GESELL. This is for \$1,000 straight life. Have you prepared similar studies from time to time for special forms of policies, such as endowment policies?

Mr. DEWEY. Not for distribution, no, sir. We have prepared them in special cases when we have been asked to, but this is the one we use for general distribution.

Mr. GESELL. Am I correct in saying that generally savings-bank life insurance shows a better experience than the comparisons made with other forms of policies, such as endowment?

Mr. DEWEY. It does, sir, but the difference in cost would not be such a high percentage if you were dealing with an endowment policy. There would still be an advantage in favor of the savings bank but I must say the advantage wouldn't be so marked as it is here because in

an endowment policy an important factor is the so-called reserve and the interest earnings on the reserve are big in the dividends there. So our difference wouldn't be so big on endowment.

Mr. GESELL. I notice that you have at the bottom of the schedule "Special policies issued only in amounts of \$5,000 or more."

Mr. DEWEY. There are some companies that issue special policies only in amounts of five thousand, they are called "preferred risks." Those are included here and they are described as such.

Mr. GESELL. Is there any company that you know of which offers a policy at a lower net cost than the savings-bank life insurance?

Mr. DEWEY. No company available to the general public. I should say the Teachers' Insurance Annuity Association of New York, which is available only to teachers, and the Presbyterian Ministers' Mutual and the Episcopal and other Clergymen's Mutuals, but there is no company operating on the agency system of solicitors which sells insurance at as low cost as savings-bank insurance.

Mr. HENDERSON. Before you leave that, I wasn't here this morning and haven't followed this. In this table of illustration of 10 years' experience where you are comparing banks 1 through 10, those are the ones which are offering savings-bank life insurance?

Mr. DEWEY. That, sir, is the first 10 banks. We had only 10 banks that have had more than 10 years of experience, so we used only those. We now have 26 banks.

Mr. HENDERSON. This is net cost in the 10-year period?

Mr. DEWEY. For all of the banks that have had a 10-year experience.

Mr. HENDERSON. Does that mean that you can get the same coverage of a thousand dollars for \$2.74 which would cost in the highest on this table, \$8.73?

Mr. DEWEY. You get the same protection.

Mr. HENDERSON. You get the same protection?

Mr. DEWEY. Yes, sir; I don't want anybody to think that you can buy a thousand-dollar policy in the savings bank for the initial premium, one-fourth of what you pay in a company, but the cost of the protection in the savings bank is \$2.74 and the cost of exactly the same protection under a policy not quite so liberal and in no respect any better is \$8.73 in the highest, for exactly the same thing.

Mr. HENDERSON. Just picking up some of the testimony of yesterday, that difference of \$6 isn't covered by what the State gives you free?

Mr. DEWEY. The State gives us nothing free, sir.

Mr. GESELL. Mr. Henderson, that was discussed at some length this morning.

Mr. HENDERSON. I will have to read the testimony.

Mr. GESELL. I can develop it again this afternoon.

Mr. HENDERSON. I wanted to get it clear in my own mind before we go on.

Mr. GESELL. The cost is all included in here. Briefly, the State is reimbursed at the end of the fiscal year for every dollar of its appropriation for the division of savings-bank life insurance.

Mr. HENDERSON. There is no phoney in this thing, that's all I wanted to get.

Mr. DEWEY. Oh, no; there is no explanation of the cost on any basis of that sort.

Mr. HENDERSON. This thing will stand up?

Mr. DEWEY. This is what it costs the banks to provide life insurance protection, paying all of the expenses and all of the death claims and all of the things that need to be paid in providing life insurance protection, they are paid for in those figures.

Mr. GESELL. Those figures have been used by you many times, have they not?

Mr. DEWEY. They have been put out for years.

Mr. GESELL. Have they ever been challenged?

Mr. DEWEY. Never.

Mr. HENDERSON. I recall from some of the correspondence introduced yesterday that one of the arguments was that we don't have a broad enough coverage,¹ therefore, a local epidemic or the like would be very disastrous. Would the \$6 additional you got cover it?

Mr. DEWEY. More than cover it, sir. That was discussed this morning; we put in figures showing our mortality experience during the flu epidemic, and as a matter of fact in the worst of the flu epidemic we experienced only 77 or 79 percent, about that, of the expected mortality under the table for which we had collected premiums. We collect premiums enough to pay 100 percent and we average to get about 35, and in the flu epidemic we got less than 80, so we still had a margin there.

Mr. GESELL. We mentioned a moment ago, Mr. Dewey, rather you mentioned, a 10-year net cost comparison projected into the future on the basis of the last available dividend.

Mr. DEWEY. Yes, sir.

Mr. GESELL. I ask you if the schedule I now hand you is such a schedule reflecting net cost comparisons on that basis.

Mr. DEWEY. Yes, sir.

Mr. GESELL. I would like to offer this schedule for the record, with the statement that it reflects 24 savings banks carrying \$1,000 straight life insurance, age 35, at an average yearly net cost of \$2.72, and in case of every company, I believe, a relatively higher average yearly net cost with a maximum at \$10.32, the Berkshire Life, which was the highest on the previous schedule, being carried on this schedule at \$9.09.

Acting Chairman WILLIAMS. It may be received.

(The schedule referred to was marked "Exhibit No. 746" and is included in the appendix on p. 4822.)

Mr. GESELL. Will you briefly review for the committee, Mr. Dewey, factors which you think are responsible for savings-bank life insurance having this lower net cost?

Mr. DEWEY. Firstly, the elimination of agents' commissions, which is the largest single item of expense in conducting the life-insurance business of the companies, elimination of considerable other expense of acquisition and the adoption of a method of acquisition that is different from that employed by the companies. That is the largest single item. Then the more efficient conduct of the business by the banks as reflected in the larger net rate of return on invested funds and lower expense ratios, part of the lower expense ratio being accounted for also by the absence of agents' commissions.

¹ See "Exhibit No. 730," appendix, p. 4810.

Mr. GESELL. Are there any other factors?

Mr. DEWEY. The lower mortality.

Mr. GESELL. Does the higher persistency of the business account for the lower net cost to some degree?

Mr. DEWEY. Yes. To a very marked degree. That is a very important thing. The people who buy life insurance in the savings banks keep it; they buy it because they want it. They go in and apply for it; nobody tries to sell it to them; they buy what they feel they can afford. The only suggestion that we ever make sometimes is to somebody who wants to apply for \$5,000, and Dr. Burnett, the State medical director, is likely to call me and say, "Here's a fellow who wants to apply for \$5,000. The credit agency reports that he has a little business out in Roxbury and his income is only about \$1,400. Don't you think we'd better tell him to start with \$3,000?" So we suggest that he start off with \$3,000 and if he can carry that for a while he buys five later.

Mr. HENDERSON. You might call it low-pressure selling.

Mr. DEWEY. Low-pressure selling; yes. The result is that they stay; we don't have the expense of putting business on the books and letting it go off. The companies have to make a profit; I don't mean a profit like a profit to stockholders, but I mean an underwriting profit. That has got to be adequate over some period of time to get back the cost of putting that policy on the books, the agent's commission, the doctor's fee, and so on. In the ordinary case of the companies that takes 3 years or 4 years. We have to do the same thing except that the amount we have to get back isn't so large. We have to get back the expense of the medical fee, \$2, but we get that back within 6 months.

Mr. HENDERSON. That would mean that you don't get down to the class of people who take the industrial insurance at 5, 10, and 15 cents a week?

Mr. DEWEY. We do get down to them. We do get them. There were some figures put in this morning, sir, a table, showing the amounts of insurance held by different persons who were insured in savings-bank life insurance,¹ an analysis by persons, not by policies.

Mr. HENDERSON. But you don't get down to that general coverage of 5 cents a week?

Mr. DEWEY. We don't do it on that basis of 5 cents a week but we reach those people all right because 26 percent of the people who are insured in savings-bank life insurance have \$500 or less.

Mr. HENDERSON. Let me get this straight. Many years ago, of course, my parents took out some industrial insurance, 5 cents a week. The collector used to come around with his book and collect 15 or 20 cents every week.

Mr. DEWEY. Yes, sir.

Mr. HENDERSON. That 15 cents a week would be about \$7.50, something like that, a year.

Mr. DEWEY. \$7.50.

Mr. HENDERSON. For the coverage of three persons, or about \$2.50 a person. Do you have any people who are getting about the same amount of coverage we were getting, who only pay, say \$2.50, to you people in the course of a year?

¹ See "Exhibit No. 739," appendix, p. 4817.

Mr. DEWEY. Yes; we have exactly that same type of coverage, small amounts of insurance, \$250, \$100, largely on children the industrial is written. We have that except we don't have it on a weekly premium basis. We would give you \$250 not of the endowment—we think it is not right to write an endowment policy on a child—but we would give you \$250 of straight life insurance, a standard ordinary form policy with a cash reserve value in 6 months. We would give you that policy, \$250, for 26 cents a month. The premium is so little that you don't need to pay it by the week. You pay for a month what you have been paying for a week for your protection, but we have a lot of those people; yes.

Mr. GESELL. And you touch the same occupational classes that take out industrial insurance, do you not?

Mr. DEWEY. Certainly, we have the working people to a large extent.

Mr. GESELL. And those people who want to pay in small amounts to savings-bank life insurance for their premiums can do so by payroll deductions, arrangements through the savings deposits and other ways which we have discussed this morning?

Mr. DEWEY. Oh, yes; where there are a number of children in the family and you have \$250 on each one—suppose there are 6 children, quite a lot of families have that many, there would be \$1.50 a month, and \$500 on the mother and a thousand on the father; that might run to \$2 or \$2.50 a month. That would be deducted weekly from the worker's pay, deducting 70 cents a week.

Mr. HENDERSON. The check-off plan.

Mr. DEWEY. Yes; it is paid by the factory on the check-off plan. In the United Shoe Machinery factory in Beverley there is a branch of the Beverly Savings Bank, which is an issuing bank. There is so much of it they have a branch savings bank in the shoe-machinery factory. The workers there all buy this. They save an amount—well, the Associated Industries estimated that it was an amount equal to 6 percent of the pay roll. They save large sums of money.

They are frequently paying out \$2 and \$3 a week for industrial insurance, and they get the same amount of protection for \$1.

Mr. HENDERSON. What is the 6 percent—6 percent on the pay roll of the people who have insurance?

Mr. DEWEY. Yes; that is they estimate that the amount that is saved by substituting savings-bank life insurance among the workers for the weekly premiums industrial insurance is an amount equal, on the average, to 6 percent of their total pay. I have seen instances in the factory where the employer kept the record, where it amounted to 10 percent of their pay that they were saving by substituting savings-bank life insurance.

Mr. GESELL. Mr. Dewey, to come to a slightly different topic for a moment, I want to show you a schedule entitled "Comparisons of Ratio of Surplus to Reserve of Massachusetts Savings Bank Life Insurance and Life Insurance Companies" and ask you if you identify that as a schedule prepared by the chief actuary of the savings-bank life-insurance division.

Mr. DEWEY. Yes, sir.

Mr. GESELL. Will you describe that schedule for the committee and make such comments with respect to what it illustrates as you think are significant?

Mr. DEWEY. Only to say that the regular method of making comparisons of surpluses is to state the proportion of the surplus to the reserve. The reserve is fixed by law. The reserve on a straight life policy, age 30, at the end of the first year, American experience, 3 percent, is \$10.49, I think it is. That reserve is fixed by law so that it is a definite thing and the reserve is just the same for all companies, using the same reserve basis. The reserve on a policy is the same in Whitman Savings Bank as it is in New England Mutual. So that is fixed. Then you determine the relative surplus by its proportion to the reserve and this is a statement of the relative proportion of surplus to reserve in savings-bank life insurance as compared with the companies.

Mr. GESELL. And it shows, does it not, that at all times from 1920 through 1937 the ratio of surplus to reserve for the Massachusetts savings-bank life insurance has been considerably higher than the similar ratio for all insurance companies doing business in Massachusetts.

Mr. DEWEY. Yes, sir.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman WILLIAMS. It may be received.

(The schedule referred to was marked "Exhibit No. 747" and is included in the appendix on p. 4822.)

Mr. DEWEY. I don't mean the surpluses of the companies aren't adequate. I mean ours are very much higher.

Mr. GESELL. Let me ask you this question: During the banking holiday in 1933 did savings-bank insurance experience any difficulties?

Mr. DEWEY. No, sir.

Mr. GESELL. Was their experience more or less the same as the regular insurance companies, or did it differ in any respect?

Mr. DEWEY. It differed.

Mr. GESELL. Will you explain how, please, to the committee.

Mr. DEWEY. You all know there was adopted at that time something that was called the "convention values" for valuing the assets of life-insurance companies. The law requires that the assets be valued at their market value at the close of the fiscal year, usually December 31. As you all know, the market was pretty bad then, and with some of the companies, if they had had to be valued at market, it would have shown on paper, at least, an impaired reserve, and under the laws if the company's reserve is impaired, the insurance commissioner has to stop its writing new insurance, stop its doing new business. And so the insurance commissioners got together in an emergency meeting in Chicago and agreed on what were called the "convention values"; that is, the operation of the law was suspended, they wouldn't have to value at market, they could value on these convention values. I am not criticizing it at all, it was an emergency, but since they talk sometimes about the safety of savings-bank life insurance, at the lowest market that there was at any time during the crash savings-bank life insurance had unimpaired reserves and a 5 or 6 percent surplus. There never was a time when we needed convention values.

Mr. GESELL. What about the moratoriums at that time? Did you discontinue payments of any sort, the way many of the principal insurance companies did under the existing laws?

Mr. DEWEY. The insurance companies discontinued or limited surrenders and loans, but they did that upon orders of the commissioner of insurance.

Mr. GESELL. I understand.

Mr. DEWEY. We asked the Commissioner of Insurance—we are governed by the law of Massachusetts relating to life insurance; we asked him to let us make policy loans in each of the banks, assuming each bank to be a separate company. The ruling let you borrow up to the amount of the reserve, or up to the specified amount of \$400 in each company in which you had policies, but not more than \$400 in any one company. We asked the insurance commissioner, Mr. Brown, to treat our institutions as so many separate companies so we could make the maximum loan in each bank. He wanted to treat it as one institution and let us make the maximum loan in only one bank. We finally compromised, and he allowed us to make the maximum loan in four banks. That more than took care of most of our people as we could loan up to \$1,600 to one person.

Mr. GESELL. You continued to make policy loans during that period?

Mr. DEWEY. Yes; indeed, we did.

Mr. GESELL. Other insurance companies were not doing so.

Mr. DEWEY. They were making policy loans. I don't know how they made them. They have a 60-day moratorium provision in the policy, and we have it also. We have never used it. I don't know, the practice differed among the companies.

Mr. GESELL. Did you continue to pay surrender values?

Mr. DEWEY. We encouraged policyholders at that time, if they needed money, to come to us.

Mr. GESELL. Did you continue to pay surrender values?

Mr. DEWEY. Indeed.

Mr. GESELL. Were the banks closed at one time during the depression?

Mr. DEWEY. You remember there was a time when every bank in America was closed.

Mr. GESELL. Did you continue the insurance departments at that time?

Mr. DEWEY. Yes, sir. The insurance departments of the savings banks were kept open and were open and doing business and paying death claims and making policy loans and doing all the other things; all through the bank moratorium when every bank in America was closed, the insurance departments of the savings bank in Massachusetts were open and doing business.

Mr. HENDERSON. What do you charge on policy loans?

Mr. DEWEY. We have always charged 5. The usual rate with the companies has been 6. We have charged 5. The State actuary and I have been discussing now for several months if interest earnings on investment continue as they are now—down—that we will probably reduce it still further, because it is our feeling that people ought to be able to borrow their own money for about what we could earn with it, after all, the reserve is their money; it is their overpayment.

Mr. HENDERSON. Is it their savings?

Mr. DEWEY. It is their savings.

Mr. HENDERSON. I don't want to trick you; I ought to tell you I had a little discussion the other day with a fellow as to whether they were savings or not. You think they are savings.

Mr. DEWEY. That is all they are. I mean, you could get insurance for a year at \$9, the next year a little more, the next year a little more, and so forth, but it would keep costing more if you had it on a 1-year term. Instead of that, you say to the company or bank, "I will pay you \$18; put the other \$9 away as reserve." It is your overpayment. You should be allowed to borrow it for what it will fairly earn.

Mr. HENDERSON. On your 5-percent charge on loans, do you think that you net anything after expenses on those loans above what your earning rate is?

Mr. DEWEY. Oh, yes; that is why I think if interest earnings stay down as they are, we ought to reduce it. Our net earnings last year were only 3.82. That means that the policyholders' money with which we earned only \$3.82, we are charging \$5 for. The expenses are not much.

Mr. HENDERSON. They are not very much.

Mr. DEWEY. No; I mean relatively no.

Mr. HENDERSON. How long does it take a man who comes in with his book and wants to get a loan?

Mr. DEWEY. Well, he comes in with his policy to our banks and wants to get a loan; he can get it in 5 minutes. He just signs the policy loan agreement (the policy has stamped on it, "This policy is subject to a loan"); they hand it back to him and he will get the check. They will complete it in 5 minutes. The reserve is stated on there. There is nothing to do but look at it and draw the check. There are no extended computations made. If he wants to borrow anything that he can, you add to it the reserve that is accumulated in the middle of the year up to the time that he is borrowing. But if he has \$300 reserve and wants to borrow it——

Mr. HENDERSON. What is your experience on lapses?

Mr. GESELL. We discussed that this morning.

Mr. HENDERSON. Can I have the answer on that for Mr. Lubin's benefit and mine?

Mr. DEWEY. Yes, sir.

Mr. GESELL. May I refresh your recollection, Mr. Dewey? Did we not present this morning some figures showing the percentage ratio between terminations by lapses, new business issued?¹

Mr. DEWEY. Yes; the lapse ratio. I will just give you 2 or 3 characteristic years, perhaps. Nineteen hundred and twenty-seven, the lapse ratio on industrial insurance was 58.3 percent. That is, that means they lapsed a number equal to 58 percent of what they wrote that year. The lapse ratio in ordinary life insurance that year was 27.44. The lapse ratio in savings-bank insurance was less than 1 percent, 0.91 percent.

Mr. HENDERSON. I am talking now about the policies on which loans have been taken. Do you have a higher ratio of lapsing in the policies from which loans have been taken than you do——

Mr. DEWEY. We have a loan, the policy goes off? We don't have that experience; they pay up the policy loans. I haven't the accurate figures. It may be some of them, but for the most part that isn't a problem at all; they pay off the loans. They pay off the loans and keep the insurance.

¹ See "Exhibit No. 740" appendix, p. 4818.

Mr. GESELL. Now, Mr. Dewey, do you identify this as a schedule which I show you, entitled "Massachusetts Savings Bank Life Insurance Compared With Total Amount of Life Insurance of All Kinds in Force in Massachusetts, 1908-38"; is the schedule prepared by the actuary of the savings-bank life-insurance division?

Mr. DEWEY. Yes, sir.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman WILLIAMS. It may be received.

(The schedule referred to was marked "Exhibit No. 748" and is included in the appendix on p. 4823.)

Mr. GESELL. I wish to ask if you recognize this document which I now hand you, entitled "Thirty Years' Experience in Massachusetts Savings Bank Life Insurance" as a break-down of the income, disbursements, expenses, assets, and liabilities of the Massachusetts savings bank life insurance, the premium income, policies in force, and other similar information?

Mr. DEWEY. Yes, sir; it is a regular publication of our office.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman WILLIAMS. It may be received.

(The document referred to was marked "Exhibit No. 749" and is included in the appendix on p. 4823.)

Mr. GESELL. Now, one other question, Mr. Dewey.

Would you say that the banks which have entered into the savings bank life insurance system have regretted the fact that they entered into it, or have they found it an advantageous thing from their point of view?

Mr. DEWEY. I have never heard one express any regret. No bank that has ever become identified with the system, either as issuing or agency bank, has ever discontinued that relationship, or wanted to do so.

Mr. GESELL. What are the factors which make this situation a happy one from the bank's point of view? Is it a fact, for example, that the maintenance of an insurance department helps the savings department, and that it may increase its accounts?

Mr. DEWEY. That, of course, does result. It increases the number of depositors in the bank. That might naturally be assumed to occur, but it does actually occur; in one bank in Massachusetts—I was talking with the president recently—there are 3 banks in that city, and he said "1 of our 3 banks last year lost about 800 accounts," 1 gained about 800; and 1 of them stood still." He said, "it so happened that our bank was the one that gained the 800 accounts," and he said, "I am inclined to attribute a great deal of it to the fact that we are actively engaged in savings bank life insurance. People hear about the bank and they come in."

Then there is another thing that occurs, and that is that when you go to a savings bank you might go there for years as a savings-bank depositor without having any occasion to deal with the insurance department, but when you go there as a policyholder to deal, or as a premium payer, even to deal with the insurance department, you do have occasion to deal with the savings department, because a natural easy way to handle your premium payment is to open a savings account in the bank. One of the larger banks kept a record over a period of 2 years; just recently gave me the figures, showing that the persons who were then policyholders in that bank, or out of those

policyholders, 14 percent of them were depositors in the bank, when they became policyholders, and at the end of 2 years an additional 24 percent of that same group had become depositors—through 2 year's relations with the bank.

Mr. GESELL. Would you say, too, or have you found this to be your experience, that the banks have liked the idea because it has localized funds and kept funds in the neighborhood of the bank, rather than giving them to some other outside company for investment?

Mr. DEWEY. They say that that is one of the things they like best about it. And here is a thing they very much like about it. I want to speak of it because it was one of the things that was very much in Mr. Brandeis' mind in setting up the system in the way he did, and that is they like it because it gives the people in the bank an interest; it gives them something that is interesting to do. I don't mean that being a teller in a savings bank isn't all right, but it is pretty much the passbook in and the passbook out; but the life-insurance department is a new thing; it is a new interest; it is a new life to a lot of people in savings banks in Massachusetts that they have had this new interest, this thing that is interesting and interesting every day, and men have developed in savings bank life insurance in Massachusetts, men have developed—one in New York we were talking about at luncheon today, was just a teller in this bank; got interested in the savings bank life insurance department when they establishee it, and he then finally was the manager of the life-insurance department in another bank.

He is now in New York in charge of the savings bank life insurance council; savings bank life insurance is his work; it is an interesting thing to him. Mr. Brandeis says an institution should be judged by the effect that it has on the people who are in it, as well as by what it does for the people who deal with it and savings bank life insurance has a nice effect—leaving myself out—on the people who are in it. They get interested in it and it develops them, and helps them, and that is not a tangible thing, Mr. Chairman, but it is a very real reason why the savings banks like it.

Acting Chairman WILLIAMS. Does the same personnel perform both duties for the bank and the insurance company?

Mr. DEWEY. In a small bank, yes, sir; take a little bank just opening its insurance department; one of the clerks in the bank will come to the statehouse and spend several days there studying the thing, and will go around to some of the already operating banks, and she will look out for the life insurance until it grows more than she can handle and needs another clerk, or another person; then she may devote her whole time to it.

Acting Chairman WILLIAMS. How many of these banks have you in Massachusetts?

Mr. DEWEY. Twenty-six issuing banks and then some 100 or 120 additional savings banks which act as agencies for the issuing banks to receive applications and premiums.

Acting Chairman WILLIAMS. Well I meant to ask you how many mutual savings banks you have in Massachusetts.

Mr. DEWEY. One hundred and ninety-three.

Acting Chairman WILLIAMS. And of that how many are engaged in the insurance business?

Mr. DEWEY. Twenty-six as issuing banks and about 120 additional as agency banks. We can now say that two-thirds of the banks, savings banks, are identified with savings bank life insurance.

Mr. GESELL. Now, Mr. Dewey, yesterday there was some discussion of a pamphlet entitled "The Savings Bank in Life Insurance," written by a Mr. Floyd E. De Groat of Boston.¹ This was a pamphlet which was used by the Association of Life Insurance Presidents in connection with some of its legislative activities against savings bank life insurance, as the record shows. I want to first ask you whether you have ever seen this pamphlet before?

Mr. DEWEY. Yes, sir.

Mr. GESELL. Have you had an opportunity to examine it in some detail?

Mr. DEWEY. I have had occasion, yes, sir; I have.

Mr. GESELL. That is a pamphlet which has been frequently used in opposition to savings bank life insurance by persons having that as their interest, has it not?

Mr. DEWEY. Very widely distributed by the life insurance interests in Massachusetts.

Mr. GESELL. Are there to your knowledge misstatements of facts in this pamphlet?

Mr. DEWEY. Yes; there are.

Mr. GESELL. Will you point out to us some of those misstatements?

Mr. DEWEY. Take what is perhaps the most——

Mr. GESELL (interposing). This pamphlet was introduced into the record yesterday, and if the committee so desires——

Mr. HENDERSON (interposing). Not introduced into the record, received for filing.

Mr. GESELL. It was received as an exhibit. I think it might be well, since it is to be discussed today, for it to be printed in the official transcript, and if that may apply also to the report of M. Joseph Cummings, chief of the bureau of banking and insurance,² which was introduced and received under the same conditions, that would be helpful.

Dr. LUBIN. Mr. Dewey, can you tell us who published this pamphlet?

Mr. DEWEY. I don't know; it doesn't tell. I don't want to say it is characteristic, but it doesn't have anything on it to indicate what it is. The fact is that Mr. De Groat is a general agent of the Mutual Benefit Life Insurance Company of New Jersey.

I get called on the telephone by businessmen and professional men to whom this had been given and they say, "Who is De Groat," and I say, "He is a general agent of the Mutual Benefit of New Jersey."

They say, "Oh, I thought so," or something like that, but it is written by life-insurance men but with nothing to disclose that it was put out by life-insurance men. You wouldn't know Floyd De Groat is a general agent. There is nothing on it to show who prints it. It was distributed by the Boston Life Underwriters Association and the Massachusetts Life Underwriters Association.

Dr. LUBIN. Is there anything available to show who paid for the printing of it?

Mr. DEWEY. No; nothing. I assume the Life Underwriters did.

¹ Previously introduced as "Exhibit No. 722." See appendix, p. 4790.

² Previously introduced as "Exhibit No. 728." See appendix, p. 4806.

Mr. De Groat is a man of substantial means. He probably paid in the first instance for the first copies, but I think the Life Underwriters paid for the wider distribution.

Acting Chairman WILLIAMS. Did it show who prepared it?

Mr. DEWEY. It shows Mr. De Groat is—

Mr. GESELL (interposing). His name appears as the author.

Mr. DEWEY. Yes.

Mr. GESELL. I asked you a moment ago to point out to the committee some of the statements which you say are misstatements contained in that pamphlet.

Mr. DEWEY. On page 2 of the pamphlet it says [reading from "Exhibit No. 722"]:

The interest earnings of the foremost life insurance companies of this country have exceeded savings-bank rates through a major portion of their history—perhaps always.

it says. Now that is definite. That is the only definite categorical statement that you can find in here, about the only one, but that is definite.

The general purpose of the first part of this book and the purpose of this part of the book is to sustain Mr. De Groat's thesis which he states later, that the insurance companies earn a larger rate of return than the savings banks do, and yet savings banks in their insurance departments pay a larger rate of interest on funds left than the savings department of the bank pays. Mr. De Groat undertakes to make out that that is wrong and his first important statement is that the insurance companies earn a larger rate of return than the savings banks. The question is, How can savings banks do these things if insurance companies earn more?

Mr. GESELL. What are the facts?

Mr. DEWEY. The facts are that beginning in 1908, from 1908 to 1924, the gross earnings of all the life insurance companies reporting to the Massachusetts Commission were 4.9; the gross earnings of all the savings banks operating in Massachusetts were 5.08—4.9 and 5.08, not much in excess, but substantially in excess. That is for the period from 1909 to 1924. Beginning in 1925 (those are gross earnings) life-insurance companies reporting to the Massachusetts Commission—and it may be true also in New York—report their earnings on a so-called "net" basis, that is gross earnings minus an arbitrary deduction for investment expenses, so the returns from then on are on a net basis. Our savings banks in their savings departments continue on a gross basis so the comparison from then on is made with the earnings of the insurance departments of the savings banks which are reported on a net basis just the same as the companies.

Now, from 1925 to 1936, the earnings of the insurance companies reporting to the Massachusetts Commission were, on the average, 4.61; the earnings of the insurance departments of the Massachusetts savings banks were 4.88—substantially more than the earnings of the companies. That may not seem to you gentlemen important, but that is the basis of a substantial part of Mr. De Groat's book. That statement by him on the second page, that the insurance companies earn a higher rate of return than the banks do, so how can the banks pay more on deposits in the insurance department than the com-

panies pay or than the savings department of the banks pay—the answer is that Mr. De Groat's statement is untrue. I have stated that to Mr. De Groat at a public hearing before a legislative committee in Massachusetts, giving him these figures, and said, "Mr. De Groat, your statement is untrue," and Mr. De Groat said, "I didn't mean interest earnings, I meant the interest factor in the dividends formula," but that isn't the statement.

MR. GESELL. Running through this thing I notice the statement here toward the end, "From the original objective, savings bank life insurance has departed far. It has not a single industrial, i. e., weekly premium policy on its books. It seeks precisely the same business as is sought by the regular ordinary company." Is it true that the savings bank has departed from its original objective?

MR. DEWEY. That is a matter of argument, sir. I wouldn't want to say that Mr. De Groat—I mean there is sufficient chance for him to say that is an expression of opinion that I wouldn't want to characterize that as a false statement. As a matter of fact, savings-bank life insurance has not departed from its purpose. Mr. Brandeis stated what the purpose of it was (the recess commission in Massachusetts just got through investigating it) that the purpose was to make life insurance available to people in Massachusetts for those who were sufficiently thrifty to buy life insurance without the intervention of somebody to sell it to them.

MR. GESELL. It was not set up, was it, with a view to writing industrial insurance?

MR. DEWEY. It never has written industrial policies, never has purported to. Mr. De Groat knows that. I am sure he does. We never have written anything but the standard ordinary form policy. We give them the same amount of insurance that the industrial company does, \$100, \$250, but you get just the same policy form on your \$100 policy that you do if you buy a thousand dollar policy; there is no discrimination against people applying in small amounts. We never have written one of those industrial policies. The company industrial policies are written on what is called standard industrial form. We have never used that. That is a 5-year cash surrender value, and that sort of thing which the law permits in a standard industrial form but doesn't permit in the standard ordinary. We use the standard ordinary for all people.

MR. GESELL. What about the statement, "Savings bank life insurance has been in operation 28 years. It is not yet self-supporting."

MR. DEWEY. That statement is untrue. I dislike to use that expression, I don't like to, but it is actually untrue. Every savings bank in the system has supported itself, paid its own expenses from the time when it started. The Commonwealth has never given the savings bank a dollar. The Commonwealth is now reimbursed for every dollar that it appropriated even for the division of savings bank life insurance in the statehouse; I am a State officer, my salary is paid back to the Commonwealth of Massachusetts. That wasn't because it wasn't proper for those officers to be paid by the Commonwealth; it was because of such statements as that, the life-insurance agents all the time saying that the appropriations from the statehouse office explained the low cost, here is the taxpayer paying it. Well, in 1929 we discussed the matter and said, "Here, the State appropriation this

year is \$30,000; our premium income is three million, 1 percent. For that little 1 percent we are letting the life insurance agents explain away the saving of 25 and 30 and 35 percent. Let's pay back the State appropriation." That is why we did it, not because it wasn't right to have it.

MR. GESELL. What about this statement [reading from "Exhibit No. 722"]:

The fact that savings-bank life insurance is not guaranteed by the State is effectively obscured, so also is the fact that it is not guaranteed by the savings bank.

Later on:

The statement in the literature that savings bank life insurance is not State insurance is of little weight against the practical misrepresentation constituted by statehouse headquarters and the use of the State seal.

MR. DEWEY. Well, in the first place we have not used the State seal, although the attorney general of Massachusetts gave a written opinion to Governor Fuller that we had a perfect right to use the State seal on literature put out from the State actuary and from my office. The State seal never appeared on the policy. The policy has always stated that the assets of the insurance department are behind the policy. The literature that we have put out has always said, only made necessary by that kind of propaganda, that it is not State insurance. The two things that we distribute to everybody who asks for literature, 20 Questions and the Brief Survey, both state that it is not State insurance. Nobody ever thought it was State insurance, or not many ever did, but that kind of propaganda by the insurance interests has made some people think so.

MR. GESELL. It is not unusual, is it, for insurance companies to use seals on their policies?

MR. DEWEY. I understand it is quite frequently done by others. It never has been done by us. Let me say further that there is an illustration of the type of thing that is said and repeated. Webster said there is a class of falsehoods capable of getting themselves believed if they are repeated enough times. Now there is a thing that is intended to create, is bound to create, a false impression, the statement about being guaranteed by the State. The policies of Mr. De Groat's company are not guaranteed by the State; no life-insurance companies are guaranteed by the State, they don't need to be guaranteed by the State to be safe if they are written in Massachusetts or New York and some of the other States with good insurance laws; any company that writes in those jurisdictions is safe. They don't have the guarantee of the State either, and ours are written on the same reserve basis as theirs and with the same reserve and a higher surplus behind them, and yet they would make out to people, and they constantly propagandize, that our policies are not guaranteed by the State, the inference being therefore they are not safe.

MR. GESELL. I might state to the committee that I have in my hand policies that have been used in recent years at least by the American Union Life Insurance Co., which contains the seal of the United States; a policy of the Life Insurance Co. of Virginia, which again contains the State seal; a policy of the Colorado Life Co., which again contains the State seal. I should be glad to pass these policies around for the benefit of the committee if they wish to see them. I

believe there is one there from the Metropolitan which contains the seal of the city of New York.

Now, Mr. Dewey, there is reference here in the pamphlet to a special commission for investigation and study of the banking structure of Massachusetts, and there is a long quotation from that report contained under the caption, "Segregation Officially Urged." Have you any comments to make with respect to that?

Mr. DEWEY. Yes; and I would like these gentlemen to look at the seals but to get this. Counsel has shown a statement in Mr. De Groat's book discussing the matter of allocation of expenses between the two departments in the savings-insurance bank. Mr. De Groat says:

The Special Commission for Investigation and Study of the Banking Structure of Massachusetts (created by ch. 35, Resolves of 1933) in its report of January 1934, said, "When savings banks were authorized to form a department of life insurance, the law provided that this department should be a distinct entity, but did not provide any effective means." * * *

The statement quoted goes ahead to say that there was no effective means for providing a separation of the expenses or the two departments. Mr. De Groat quotes that from what he describes as "The Special Commission for Investigation and Study of the Banking Structure of Massachusetts, Created by Chapter 35, Resolves of 1933." Now, Mr. De Groat knows the circumstances of that resolve. We had trust company failures in Massachusetts in '29 and '30 and '31, and a commission was appointed to study the trust companies, not the savings banks, it had nothing to do with savings banks. We paid no attention to the commission, never attended any hearings; that commission was authorized to study the trust companies. That commission was composed of the joint legislative banking committees of the two houses of our legislature, with three men added. One of the men added was a gentleman who is now the legislative representative of the John Hancock Life Insurance Co. at the State house, Mr. Robert Lee. When their report was filed (nobody supposed it would have anything in it about savings banks, nobody supposed or expected it would have anything about savings banks, they had no authority to say anything about savings banks) this language was found in that report. I talked with the chairman of the commission, Senator Cotton, the chairman of the committee on banks and banking, and chairman of the commission, and he said, "That is something Bobbie Lee asked us to put in that. He said you folks had no objection to it, so we put it in." He said, "We all saved our rights." That is how that got in. Mr. Lee, then Representative Lee, now legislative representative of the John Hancock in the State house, got that into that report.

The joint legislative committee rejected it unanimously, although they were the members of the commission in whose name this thing had been done. They rejected it unanimously and reported leave to withdraw on the bill reported in connection with it, and that adverse report was accepted in both branches of the legislature without division. The house chairman of the commission stated that that had been put in there by Representative Lee and there were a lot of things they had not had time to read. That all occurred when that report was made, and it never was adopted by anybody officially in Massachusetts and Mr. De Groat knows it, but he puts it in there to lead the

reader to believe that that is an official pronouncement of the Commonwealth of Massachusetts.

MR. GESELL. Now, Mr. Dewey, you have seen the report of M. Joseph Cummings, chief of the division of banking and insurance,¹ have you not?

MR. DEWEY. Yes, sir.

MR. GESELL. Have you had occasion to compare that report with the De Groat report?

MR. DEWEY. Yes, sir.

MR. GESELL. Do you find any similarity?

MR. DEWEY. I find that it is sufficiently the same to be striking. The language is changed in some cases, but there are figures. The answer is "yes."

MR. GESELL. Can you tell us a little in a general way what type of opposition there has been to savings-bank life insurance in the State of Massachusetts by insurance representatives? Have you found much evidence of misrepresentation by agents selling insurance in Massachusetts?

MR. DEWEY. Constantly, constantly. I wouldn't say all life-insurance agents.

MR. GESELL. Will you tell us rather precisely how this information has come to your attention and what the character of it is?

MR. DEWEY. Well, in the first place, I would say that two life-insurance agents in Massachusetts—representing not industrial companies either; representing the ordinary companies—have had their licenses revoked by the commissioner of insurance for making false statements about savings-bank life insurance. I don't say that all the agents do this; it hasn't come to my attention in this period of 20 years that there are any who don't, but I won't say that they all do. The representations are largely directed to a campaign of fear, terror, fear; making people afraid of savings-bank life insurance, that the banks are likely to fail, that is the impression they try to create—the impression that the banks will fail. Prior to the adoption of the reimbursement statute, which we proposed and had passed, the propaganda was that the State was going to withdraw its support from savings-bank life insurance and then "your insurance will cost more;" when we caused the reimbursement statute to be enacted, then they went out and said, "The State has withdrawn its support; now your insurance will cost more."

Before coming down here I appeared before the Joint Committee on Ways and Means in favor of a proposal to increase the taxes on savings-bank life insurance, the increase being very trivial, but to put them on the same basis on which the life companies are taxed. It will amount to about \$10,000. We are paying a million dollars this year in dividends, but before I left last evening—that afternoon we began getting telephone calls from policyholders in savings-bank insurance who were being told that the taxes were now going to be increased and their insurance would cost them more.

MR. GESELL. This information, I take it, has come to your attention through conversations with policyholders.

MR. DEWEY. Not altogether. I have one illustration that came to me in writing, and it was the conduct of a general agent of the New England Mutual—not even an industrial agent.

¹ See "Exhibit No. 728," appendix, p. 4806.

Mr. GESELL. You are referring, I take it, to the statement which was introduced in the hearings before the Massachusetts committee last fall?

Mr. DEWEY. Yes, sir; the statement of Merle G. Sumners, general agent of the New England Mutual.

Mr. GESELL. Most of the information to which you have referred came to you through conversation with policyholders?

Mr. DEWEY. Yes, sir; that is true.

Mr. GESELL. Have there been efforts from time to time to amend the savings-bank legislation?

Mr. DEWEY. Yes.

Mr. GESELL. Those efforts, I take it, have been of two characters: one to defeat the appropriation measure and the other to reduce the maximum amount of insurance which any single policyholder might take out.

Mr. DEWEY. Yes, sir.

Mr. GESELL. Have there been other forms of objections and opposition raised by life insurance people who oppose the measure?

Mr. DEWEY. In the legislature?

Mr. GESELL. Or elsewhere.

Mr. DEWEY. In the legislature the proposals have been principally to reduce the amount which any citizen of Massachusetts could buy; it was usually to 5 thousand or to 3 thousand.

Mr. GESELL. I have no further questions of this witness.

Mr. DEWEY. May I, Mr. Chairman, add one sentence to what I said about this campaign of making people afraid. Here are the instructions given by Merle G. Sumners, the general agent of the New England Mutual, to a group of his agents whom he was giving instructions on how to compete with savings bank life insurance. He said: "Ask who gets the money in the guaranty fund, if the bank, fails; the first or the last bank that failed." That is what Mr. Sumners, the general agent of the New England Mutual, was telling his agents who work for him to go out and say to people in Massachusetts about savings bank insurance.

Acting Chairman WILLIAMS. If there are no more questions, that is all.

Dr. LUBIN. May I ask one question? Would it be possible for you to make available to the committee standard forms of policies of the savings bank life-insurance banks in Massachusetts with, let us say, the standard forms of the four largest companies operating in Massachusetts? ¹

Mr. DEWEY. I should be very glad to provide you with whatever number you say for the committee of all of our forms.

Mr. GESELL. We are obtaining forms of the other companies independently.

Mr. DEWEY. I have no way of getting the others.

Dr. LUBIN. Would it be all right, Mr. Gesell, to request Mr. Dewey to file with us the standard forms of their policies?

Mr. GESELL. I have a standard form here. If you would like to have it in the record—

Dr. LUBIN. I don't think that would be necessary if you have it available.

¹ Standard forms of various companies are on file with the committee.

Mr. GESELL. Very well.

Acting Chairman WILLIAMS. Has it been offered for file?

Mr. GESELL. I have not been offering policy forms for the files. We intend, at some time before the conclusion of these hearings, to prepare a study of differences in policy forms and present it to the committee.

Dr. LUBIN. That is perfectly all right.

Mr. DEWEY. Thank you for your courtesies.

(Mr. Dewey was excused from the stand.)

Mr. GESELL. I will next call Mr. Plantz.

Acting Chairman WILLIAMS. Do you solemnly swear that the testimony you are about to give in these proceedings shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. PLANTZ. I do.

TESTIMONY OF C. B. PLANTZ, ASSISTANT VICE PRESIDENT, NEW YORK SAVINGS BANK, NEW YORK CITY

Mr. GESELL. Will you state your full name?

Mr. PLANTZ. Clarence B. Plantz.

Mr. GESELL. Are you connected with the New York Savings Bank, Mr. Plantz?

Mr. PLANTZ. I am; I am assistant vice president of the New York Savings Bank.

Mr. GESELL. Are you in charge of the savings bank insurance department of that bank?

Mr. PLANTZ. I have been; yes.

Mr. GESELL. Are you familiar with its activities under the New York law?

Mr. PLANTZ. I am.

Mr. GESELL. When was the New York savings bank life insurance law enacted?

Mr. PLANTZ. It was enacted in the 1938 legislature, and the law itself became effective January 1, 1939.

Mr. GESELL. Was the New York Savings Bank one of the first banks to enter into the system?

Mr. PLANTZ. Yes; it received its license on January 6.

Mr. GESELL. How many banks are in the system now?

Mr. PLANTZ. There are 13 banks that have received licenses; 6 of them are issuing banks and 7 are agency banks. Since I was subpoenaed by the committee I have heard that another bank has taken action by its board of trustees to come into the system; I don't believe the licenses have been issued yet, though.

Mr. GESELL. By and large, is the New York law similar to the Massachusetts law?

Mr. PLANTZ. In many respects it is almost identical.

Mr. GESELL. Will you point out to the committee where it differs materially?

Mr. PLANTZ. There are 3 material differences. First, the New York law places a limitation of \$3,000 that can be issued on any one life. The same limitation of \$1,000 by any one bank applies, but whereas in Massachusetts each bank in the system, assuming there were 26, each may issue a policy; in New York only 3 policies of \$1,000 could be issued.

Now the second—there is a second major difference which has to do with the set-up in the division of savings bank life insurance. In New York State there is a constitutional limitation on the number of State departments that may be formed, and I am told that that is the reason for that difference in our law. In other words, it was felt that a division with a board of trustees operating with powers as outlined by Mr. Dewey in his testimony would constitute an additional State department. For that reason in New York—many of the powers that are exercised by the trustees of the general insurance guarantee fund are exercised by the New York State superintendent of insurance.

That leaves about the only duties or powers of the board of trustees the control and management and investment of the general insurance fund.

Mr. GESELL. And what is the third difference?

Mr. PLANTZ. The third has to do with the method of taxation. In New York State the insurance departments in the savings banks are subject to the same provisions of law as to taxation as are the insurance companies.

Mr. GESELL. Now, is there at the present time any form of State subsidy by the State department for the bank system other than the operations of the regular insurance department?

Mr. PLANTZ. There is, I believe, an allowance in the budget covering the first-year expenses of the system; that is the maintenance of the division of savings bank life insurance in the State. Commencing at the end of this year the law provides that the expenses of the State office, of course, including the deputy superintendent of insurance and the State actuary, the medical director, and any other employees, expenses for printing, must all be borne by the banks. The superintendent of insurance is authorized under the law to allocate the contributions to reimburse the State.

Mr. GESELL. Now can you tell us—I presume you have rates set up and there are policyholders who have taken out savings bank insurance in New York, are there not?

Mr. PLANTZ. Yes; I have.

Mr. GESELL. How do your rates compare with the Massachusetts rates?

Mr. PLANTZ. In New York rates are somewhat higher than the Massachusetts rates; being a new enterprise in New York, to be on the conservative side, let us say, it was felt that it would be better to have slightly higher rates. Another element that made it necessary to have higher rates was the fact that at this time there must be a contribution of 4 percent of premium income in order to build up this State-wide general insurance guaranty fund.

Mr. GESELL. Your fund does not yet—

Mr. PLANTZ. Ours is not yet 100,000.

Mr. GESELL. You say there is a slight difference. Am I correct in saying that for an ordinary-life policy, age 35, \$1,000, Massachusetts, the charge would be \$22.19 and in New York it would be \$23.96?

Mr. PLANTZ. Those are the rates; yes.

Mr. GESELL. And that difference as represented between those two figures is more or less the same difference which prevails all through the rates, is it not?

Mr. PLANTZ. I think there is a similar difference as to the expense loading in all the types of policies.

Mr. GESELL. That still makes the savings-bank insurance in New York very low from a net-cost point of view, does it not?

Mr. PLANTZ. As yet we are unable to give figures on the basis of net cost, because we have no dividend schedule and can't have until the end of the year.

Mr. GESELL. But assuming normal experience, you anticipate you will have a low net cost?

Mr. PLANTZ. We see no reason why there should be any material difference in net cost over a period of years, other than by reason of this necessity of contribution of 4 percent to the general insurance guaranty fund, and some slight difference in methods of taxation, which I don't believe should total more than $4\frac{1}{2}$ -percent difference in the question of real cost.

Mr. LUBIN. You mean no difference between the cost in New York as compared with Massachusetts?

Mr. PLANTZ. With the exceptions that I have mentioned.

Mr. GESELL. Now, Mr. Plantz, how many policyholders are there in New York State by this time? Can you give us a rough idea?

Mr. PLANTZ. As of June 1, 4,302 policies had been issued for a total of \$3,807,750.

Mr. GESELL. That is all savings-bank life insurance, is it not?

Mr. PLANTZ. It is, yes; it represents that issued not only by the New York but by all the others. Some of those issuing banks, by the way, have not been in since the beginning of the system.

Mr. GESELL. You have had more success from the point of view of number of banks and the amount of insurance written than the Massachusetts system did in its early experience, have you not?

Mr. PLANTZ. I am told that in the first 3 or 4 months we have accomplished more than was accomplished in the first 3 or 4 years in Massachusetts. Now, that is not any particular result of our activities; it is the normal thing to be expected, because when this system was started in Massachusetts there was nothing to which to point, that it was workable, that it would result in low-cost insurance. I think the reason for our better experience has been the experience in Massachusetts over the past 30 years.

Mr. GESELL. What percentage of the policyholders have policies in your bank, approximately? Is it around 40 percent?

Mr. PLANTZ. I don't understand your question.

Mr. GESELL. Of the policyholders that have taken out policies in New York, have a rather large number of them taken out insurance with your bank at your bank?

Mr. PLANTZ. Oh, yes; we have done nearly half of the business.

Mr. GESELL. Have you any idea as to how the size of the policies is running?

Mr. PLANTZ. Yes; you mean in the State or in our bank alone?

Mr. GESELL. Well, can you give us both figures?

Mr. PLANTZ. I can. In the State 35 percent of the policies that have been issued are under \$1,000, 43 percent are for \$1,000, 9 percent are for \$1,100 to \$2,000, and 13 percent are from \$2,100 to \$3,000. Now, that represents the figures—the amount of insurance per person; it doesn't represent the average policy issued by a particular bank. In our bank alone it is our experience that about 78 percent have \$1,000 or less of insurance. The others have applied for additional insurance. On the basis of the actual policies issued by our

bank, the average policy is \$866. That bears out the fact that most of the people apply either for \$1,000 or \$500.

Mr. GESELL. What kind of people come into your bank? You see them, don't you, Mr. Plantz?

Mr. PLANTZ. Yes; I have been in contact, even before this began, because as early as December people began coming into the bank, having read in the newspapers about savings bank life insurance.

Mr. GESELL. What kind of people are they; what occupational level do they come from?

Mr. PLANTZ. Very general public. We have made an analysis of the first thousand policies issued. Of that thousand the largest class was clerks, the next largest class was salesmen.

Mr. GESELL. Is this schedule which I show you that analysis to which you refer?

Mr. PLANTZ. That is right; yes.

Mr. GESELL. I notice on here "Insurance." I take it you have some insurance people who are policyholders.

Mr. PLANTZ. Of the first thousand policies issued seven were employees of life-insurance companies.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman WILLIAMS. It may be received.

(The schedule referred to was marked "Exhibit No. 750" and is included in the appendix on p. 4825.)

Mr. GESELL. Am I correct, under the New York law there is a medical examination of each policyholder?

Mr. PLANTZ. No; insurance issued on the lives of children under the age of 15 is not based on medical examination except in unusual cases where the application itself may divulge a necessity for some check up. On all those over 15 an examination is required.

Mr. GESELL. Have you found that many of the people who have come to you to take out savings-bank life insurance have policies with other companies?

Mr. PLANTZ. A great many of the people that apply have insurance; some a considerable amount of insurance, but the amazing fact to us in the savings banks, starting in this insurance, is the number of people, in answering the questions on their application for insurance, state that they have no other insurance. We have made checks of that right from the beginning and those checks show that in our bank 42.6 percent of the people that we have issued policies to have no other insurance, had no other insurance at the time they came in and applied to us for savings bank life insurance.

Mr. GESELL. I take it, in New York you don't have agents to sell insurance.

Mr. PLANTZ. In connection with savings-bank life insurance, no; we have savings banks who act as agencies. We have no agencies other than savings banks, however. There is no limitation in the law, but at the beginning we have not as yet appointed any other agency.

Mr. GESELL. Do you have instructors, the way they do in Massachusetts?

Mr. PLANTZ. No; we have no instructors. There are no State instructors that go out and lecture on savings-bank life insurance. The law has the same limitation against having paid solicitors.

Mr. GESELL. Have you in New York experienced much opposition from insurance agents to the savings-bank life-insurance program?

Mr. PLANTZ. We have experienced opposition.

Mr. GESELL. You say you have or have not?

Mr. PLANTZ. We have, from the agencies. In New York, as far as I know, the companies themselves have never taken any open or active part in opposition, but from conversations I have had from time to time with people applying for insurance or coming in to talk about it I understand that the agents are following the same campaign, trying to rouse fear in the minds of people, as was followed in the beginning in Massachusetts. The principal method, of course, is the allusion to the hypothetical epidemic that may come some day and carry everybody away. The other is that the savings banks have gone into this as a temporary side line, and after they have had a little fun with it they are going to drop it. In fact, I think one publication to that effect got into the newspapers, which, of course, was promptly denied, because there is no such feeling on the part of any of the banks that have gone in. The banks that have gone in are very well pleased with the results so far. In fact, the results have been far beyond anything that we had planned on when we thought of going into this the first of the year.

Mr. GESELL. I have no further questions of this witness.

Acting Chairman WILLIAMS. Are there any questions?

Dr. LUBIN. May I ask Mr. Plantz whether there was any opposition from insurance companies when this legislation was being considered?

Mr. PLANTZ. The companies themselves at that time issued public statements in which they said they were not opposed. However, the legislators were flooded with letters, thousands of letters, opposing it, and these letters were very similar in type, which would naturally arouse the suspicion that they were instigated by some one organization. I don't think the insurance companies themselves were responsible. I think the opposition came from the life underwriters.

Mr. GESELL. I might call attention, Dr. Lubin, to "Exhibit No. 734,"¹ introduced yesterday, wherein the committee on law and legislation of the Life Underwriters Association sent out a bulletin worded as follows:

Flash! Word from Albany indicates pressure from New York and vicinity against savings-bank life-insurance bill is still not strong enough. Please have all your agents wire again, making sure every senator and assemblyman gets at least one telegram from your office regardless of constituency. They are weakening.

Keep up the good work.

Suggestions enclosed.

And there are enclosed and printed in the record 16 "canned" telegrams² which were suggested by the committee on law and legislation as appropriate for the occasion.

Acting Chairman WILLIAMS. Thank you.

(The witness, Mr. Plantz, was excused.)

Mr. GESELL. We have no further witnesses today, if the committee please.

Acting Chairman WILLIAMS. The committee will be in recess until 10:30 tomorrow.

(Whereupon, at 4:10 p. m., a recess was taken until Friday, June 16, 1939, at 10:30 a. m.)

¹ See appendix, p. 4815.

² Ibid.

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

FRIDAY, JUNE 16, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:45 a. m., pursuant to adjournment on Thursday, June 15, 1939, in the Caucus Room, Senate Office Building, Representative B. Carroll Reece presiding.

Present: Representative Reece (acting chairman), Messrs. O'Connell, Lubin, Henderson, and Brackett.

Present also: Joseph Borkin and Ernest Meyers, Department of Justice; Willis Ballinger, Federal Trade Commission; and Gerhard A. Gesell, special counsel, Securities and Exchange Commission.

Acting Chairman REECE. The committee will come to order, please. Mr. Gesell, are you ready to proceed?

Mr. GESELL. I am.

INTERCOMPANY AGREEMENTS—ANNUITIES

Mr. GESELL. Today, if the committee please, the Commission will present additional testimony indicating the nature and effect of intercompany meetings held among representatives of principal companies for the purpose of discussing premium rates. On Tuesday and Wednesday of last week we discussed intercompany arrangements affecting group life-insurance rates and ordinary insurance rates of nonparticipating companies.¹ The testimony this morning will pertain to annuity rates.

I would like to call as my first witness Dr. Hunter, of the New York Life Insurance Co.

Acting Chairman REECE. Do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Dr. HUNTER. I do.

TESTIMONY OF DR. ARTHUR HUNTER, CHIEF ACTUARY AND VICE PRESIDENT, NEW YORK LIFE INSURANCE CO., NEW YORK, N. Y.

Mr. GESELL. Will you state your full name for the record, please?

Dr. HUNTER. Arthur Hunter.

Mr. GESELL. Are you chief actuary and vice president of the New York Life Insurance Co.?

¹ Supra, pp. 4223 et seq.

Dr. HUNTER. I am.

Mr. GESELL. How long have you been with the New York Life Insurance Co.?

Dr. HUNTER. Forty-one years.

Mr. GESELL. How long have you been chief actuary, Dr. Hunter?

Dr. HUNTER. Twenty years.

Mr. GESELL. As actuary of the New York Life Insurance Co., I understand that you have the principal responsibility for establishing the basis of the premium rates of that company, do you not?

Dr. HUNTER. I have the responsibility with my associates who recommend to the appropriate committee of the board of directors.

Mr. GESELL. You have had, then, in the last years, the responsibility of recommending to the board of your company what rates should be charged by the company for various types of annuities?

Dr. HUNTER. Yes.

Mr. GESELL. Am I correct in saying that the annuity business has grown considerably in recent years?

Dr. HUNTER. It has.

Mr. GESELL. Do you know when it was that the companies first started to write annuities on any large scale?

Dr. HUNTER. May I look at my records?

Mr. GESELL. Certainly.

Dr. HUNTER. About 10 years ago, 1927.

Mr. GESELL. I would like to offer for the record at this time a scheduled entitled "Premium Income and Consideration Received, Annuity Contracts" which has been prepared by the staff of the Commission from the Spectator Insurance Yearbook. This shows the premium income and other consideration received for annuity contracts of the companies reporting to the Spectator for the years 1913 to 1937; "Total premium income and consideration received on annuity contracts during the years 1933 to 1937, inclusive, amounted to \$2,065,191,000 or 67.11 percent of such income during the entire period from 1933 to 1937, inclusive."

Acting Chairman REECE. It may be admitted.

(The schedule referred to was marked "Exhibit No. 751" and is included in the appendix on p. 4825.)

Mr. GESELL. Can you tell me, Dr. Hunter, whether the principal companies writing annuities have been making or losing money in recent years on their annuity contracts?

Dr. HUNTER. I could not tell.

Mr. GESELL. You are familiar with the experience of your own company, are you not?

Dr. HUNTER. Yes.

Mr. GESELL. What has that experience been?

Dr. HUNTER. That experience up to date indicates that there is little if any loss.

Mr. GESELL. You mean that eventually there will be little if any loss?

Dr. HUNTER. It depends entirely on the future.

Mr. GESELL. So far as your operating results during the last few years are concerned, however, your company has been losing money on annuities, has it not?

Dr. HUNTER. I doubt it.

Mr. GESELL. Is it not a fact that you have shown since 1932 for every year a decrease in the surplus of your company allocated for annuity business?

Dr. HUNTER. May I ask whether you are referring to the gain and loss exhibit statement?

Mr. GESELL. Yes; it has shown such by that statement. Your gain and loss exhibit has shown losses in annuities.

Dr. HUNTER. By that statement.

Mr. GESELL. Yes. Do I understand you to say, then, that that statement is not correct or doesn't represent the operating results?

Dr. HUNTER. It does not show the operating results. It does not show the realized loss. What it does show is that the company was strengthening its reserves, and in strengthening its reserves that increase must appear in that, and of that—

Acting Chairman REECE (interposing). Will you kindly talk into the microphone a little more closely, please?

Dr. HUNTER. Shall I begin again?

Acting Chairman REECE. Yes.

Dr. HUNTER. That amount which appears in the gain and loss exhibit is not a realized loss. It is due to the fact that the company as a conservative measure has been strengthening its reserves. These reserves have been strengthened in two ways, either by putting up reserves at a lower rate of interest or by adopting tables showing a lower mortality.

Of that total reserve, total loss, apparent loss, at least three-quarters of it is due to increasing reserves. Another goodly portion of the balance is due to the fact that the company has been writing down certain of its assets which may or may not turn out to be real losses, and a proportion of that has been charged against the annuities.

Mr. GESELL. In setting up these special reserves in recent years, I take it, in the case of your company, the reserves have been set up partly because of the feeling that added protection is needed to insure the company of meeting its commitments on its annuity business.

Dr. HUNTER. I would like to amend one word there. I think it is desirable to do so. If the rate of interest continues to go down, it is most desirable, but one doesn't know whether the rate of interest is going down or not.

Mr. GESELL. The establishment of these reserves by your company and the other principal companies would indicate that, generally speaking, the companies have felt that it has been advisable to set up higher reserves to secure their annuity contracts.

Dr. HUNTER. That is so where there is an indication prevailing in the condition which might mean a loss.

Mr. GESELL. It is impossible to tell whether at the present time there has been a loss or whether or not a loss will be realized in the future.

Dr. HUNTER. Yes.

Mr. GESELL. Would you concede, however, Dr. Hunter, that the establishment of special contingency reserves against annuity contracts in recent years is an indication that the management of the companies feel it desirable to increase the protection against these policies?

Dr. HUNTER. I should say yes, and there is the fact that our company has been more conservative than any others in that respect, and there-

fore there is an apparent loss to a greater extent than the others, but that is not criticism of the company. It should be commended for being most careful.

Mr. GESELL. If the contracts had been written on a different basis originally, it would not be necessary to make these special contributions in terms of contingency reserve, would it?

Dr. HUNTER. No; if they had been written on a basis such as we have now, 2½ percent, it probably would not.

Mr. GESELL. So that it is fair to say, is it not, that the companies have felt on the basis of present conditions, the annuities which have been written were written on too liberal a basis?

Dr. HUNTER. That only the future can tell, Mr. Gesell. If the rate of interest continues going down, yes; but we hope it will return, and may I add this, that I am old enough to remember the influenza epidemic of forty-five-odd years ago, in which the death losses occurred almost entirely among elderly people. An epidemic of that kind might come along in the future, who knows? It is a measure of conservatism, if that is what you wish me to say.

Mr. GESELL. I would like you to say that it is a measure of conservatism which has been particularly pronounced in the annuity field as opposed to the general operations of your business.

Dr. HUNTER. I think that is a fact.

Mr. GESELL. I would like to offer for the record a schedule entitled "Personal annuities, 10 largest United States companies, increase or loss in surplus after appropriation for contingency or other special reserves for the years 1929 to 1938, inclusive." This schedule has been prepared from replies of the companies to the investment questionnaire of the Commission.

Acting Chairman REECE. It may be admitted.

(The schedule referred to was marked "Exhibit No. 752 and is included in the appendix on p. 4826.)

Mr. GESELL. I should also like to offer for the record at this time a schedule entitled "Personal annuities, increase or loss in surplus after appropriation for contingency or other special reserves, 26 largest United States companies." The previous schedule showed the names of the top 10 companies and the gains or losses in their surplus. This schedule shows numerically only the number of companies which have increased and the number of companies which have shown losses in their annuity surpluses during the years from 1929 to 1938. It has been prepared also by the staff of the Commission from the replies to the investment questionnaire.

Acting Chairman REECE. It may be admitted.

(The schedule referred to was marked "Exhibit No. 753" and is included in the appendix on p. 4827.)

Mr. GESELL. Dr. Hunter, am I correct in stating that meetings have been held from time to time at your office attended by representatives of principal companies to discuss annuity premiums and other matters affecting annuities?

Dr. HUNTER. Yes; these conferences have gone on for a period of pretty nearly 20 years.

Mr. GESELL. Have the conferences been more frequent in recent years?

Dr. HUNTER. Yes; because of the more serious problems which we have had to face.

Mr. GESELL. Are the representatives of the companies attending these meetings usually the actuaries of the companies?

Dr. HUNTER. Yes.

Mr. GESELL. The meetings are held in your offices, are they?

Dr. HUNTER. Sometimes; sometimes elsewhere.

Mr. GESELL. They have been frequently held in your offices, have they not?

Dr. HUNTER. Frequently.

Mr. GESELL. Have you been the presiding officer at those meetings?

Dr. HUNTER. Mostly; at many of them.

Mr. GESELL. How many companies were represented, usually, at the meetings?

Dr. HUNTER. Oh, about 20.

Mr. GESELL. They are all, usually, the 20 largest companies, are they not?

Dr. HUNTER. Yes; with the exception that we usually had with us Mr. Moir, who is a famous actuary who died a little while ago.

Mr. GESELL. Who called the meeting together, Dr. Hunter?

Dr. HUNTER. There were a great many meetings which I had nothing to do with, but those which I had to do with I called.

Mr. GESELL. On whose suggestion did you call the meetings together?

Dr. HUNTER. Usually they were called through actuaries of the companies writing in to me and saying they would like to discuss some of their problems.

Mr. GESELL. Why did they write in to you?

Dr. HUNTER. Because I am the oldest ex-president of the Actuaries' Society.

Mr. GESELL. Do you wish to elaborate on your statement?

Dr. HUNTER. May I say that the first meeting which was held in connection with these annuities was at the suggestion of the insurance commissioner of the State of New York?

May I continue?

Mr. GESELL. Certainly.

Dr. HUNTER. In 1930—yes; in 1930—a committee of actuaries was requested to prepare a new annuity table. That same committee had been working with the insurance department on amendments to the expense section of the law. That was finished by this group of actuaries, and then a little bit later, in 1932, the insurance department brought to the attention of the companies the fact that the then annuity table did not seem to be in accordance with present-day conditions. Accordingly, a committee of five of us were asked by the insurance department to take up the whole question of the annuities, and in the beginning of 1933 we presented to the insurance department a statement of the experience of the five largest companies.

Following that, and at the suggestion of the insurance department, the five of us met in the offices of Mr. Gore, who at that time was the senior actuary in Newark. I think Mr. Craig had something to do with it at the time. After the mortality conference statement had been submitted to the insurance department it was suggested by the insurance department that we give the other companies the benefit of the information, and accordingly that experience of the five companies was sent to quite a large number of companies.

Mr. GESELL. Your original meeting that was held at the suggestion of the insurance department and your subsequent discussions related entirely to the question of pooling mortality experience, did it not?

Dr. HUNTER. No, sir.

Mr. GESELL. Do I understand you to say that the insurance commissioner suggested that the companies get together to discuss all other factors involved in premium rates?

Dr. HUNTER. There was no discussion, sir, ever in the committee with regard to premium rates for life insurance.

Mr. GESELL. We are talking about annuities.

Dr. HUNTER. You say "annuities and other matters." The insurance department did ask us to get together on other matters than annuities.

Mr. GESELL. In the field of annuities, which is our subject for discussion this morning, did not the insurance commissioner limit his suggestion of discussions with you to the question of mortality experience on annuity contracts?

Dr. HUNTER. No. I think by that time he considered that the rates of interest were beginning to decline, and we should consider that, but I wouldn't like to be positive on that.

Mr. GESELL. Can you be positive on the question of loading on annuity contracts?

Dr. HUNTER. No; that was left to ourselves.

Mr. GESELL. You were saying a moment ago that you presided at these meetings which were held at your office. Can you tell us how the meetings were conducted from the time that they opened until the time they closed?

Dr. HUNTER. The procedure was entirely informal. When the notice was sent out there may or may not have been an agenda with regard to the meeting. When the meetings were opened I stated the subjects which were to be discussed or the subject if it happened to be one. There was then a free discussion as to what the actuarial basis of whatever it was should be. Each member there told what the experience of his company was, it may have been with mortality, it may have mentioned the rates of interest, it may have mentioned other matters. After that was completed—each man took his own notes, there were no minutes, there never have been any minutes kept in any informal meeting that I have ever attended—they then went back to their companies, discussed the matter with them, and I then became a clearing house to send to the other companies whatever information came to me. I would like to say at this point that a number of the companies came to their own decisions after we had our talks, and so in ours, while others did not; some of them were a little bit in doubt. But I served as a broadcaster for the opinions of these companies.

Mr. GESELL. Let me see if I understand that. The meeting would be held in your office, an agenda would be discussed topically, the companies would express their opinion—

Dr. HUNTER. Not the companies—the actuaries would discuss it.

Mr. GESELL. Then they would go back to their companies and consult with their colleagues. They then would advise you as to what position their company was going to take on the matters discussed.

Dr. HUNTER. Yes.

Mr. GESELL. And then you in turn would advise all of the companies present as to what information you had gotten from each of the others who had attended.

Dr. HUNTER. That is correct.

Mr. GESELL. Am I correct in saying that after a matter had been discussed and decisions reached, it is your customary practice to destroy your papers relating to that conference?

Dr. HUNTER. Not at that time, but my practice is this. I have to be on duty every August. In August I go over all my papers and my secretary brings to my attention the papers which he thinks are of no value. That covers all kinds of correspondence. These papers are destroyed. If they are of any value they are kept. The last meeting of any moment that I attended was over 2 years ago and in the normal course of business these were destroyed. It never crossed my mind for a moment that anyone, including such a body as this, would be interested in notes made in connection with informal discussions.

Mr. GESELL. I am not suggesting that was done with any improper motive. I want that to be clear.

Dr. HUNTER. But I want to add one more thing to that. Among the actuaries there are very careful men who keep all their papers and everything that has happened could be obtained from them from their records. I have no doubt that Mr. Gesell has a complete list of everything that was discussed, even our thoughts.

Mr. GESELL. It is to me of some interest, however, Dr. Hunter, that regardless of the reasons why or the circumstances under which these records were destroyed, that the records which came to you as the presiding officer of these conferences and the records which you maintained in that capacity have all been done away with. The only way, then, that anyone can determine what happened at those conferences in detail is to go through the rather laborious process which you have suggested that we must have pursued to go to each of the companies attending and determine the nature of the records that may or may not have been kept by that particular company.

Dr. HUNTER. I shouldn't think it would be laborious because you might find one man who had the complete file.

Mr. GESELL. That is a question. The facts are that at the conclusion of the conference and in the regular course of your office, papers relating to the discussions of that conference and correspondence which you received from the participating companies with respect thereto were destroyed.

Dr. HUNTER. Yes; but not at that time. Maybe a year afterward, longer. It may have been a few months, may have been a few weeks. I don't know. I kept no record of it.

Mr. GESELL. Now I want to understand a little more clearly why it is that it was necessary to hold these meetings at your office. Isn't it a fact that topics with respect to annuities and annuity problems are continually discussed at the meetings of the actuarial society?

Dr. HUNTER. There are two types of subjects discussed at the actuarial society; one is topics of permanent value where papers are submitted and the discussions take place which are printed. There is another set of subjects which are discussed in an informal way of current topics, but may I just add that that is not the only place where there are meetings of actuaries. There is a senior and

a junior actuary club in New York. There are clubs throughout the whole country, in Des Moines, in Los Angeles, Toronto, and elsewhere, and meetings are held frequently.

Mr. GESELL. That is just the point exactly. Why was it necessary then to add to the meetings of all these clubs and discussion groups throughout the country a series of meetings at your own office?

Dr. HUNTER. Because there are something like 200 companies, which means an attendance of possibly 400 people at an actuarial society meeting, and it is not possible to discuss such subjects there.

Mr. GESELL. Is it not a fact that at the informal discussion of topics of current interest at the actuarial society that during the last 8 years the annuities have been included on that agenda at least 10 times, and there have been informal discussions periodically of annuity problems?

Dr. HUNTER. Yes, sir; but that has consisted almost exclusively of persons giving their opinion and stating the experience of their companies.

Mr. GESELL. How did that differ from what was happening in your own office?

Dr. HUNTER. Because it was a much more intensive one, where the group of actuaries, after discussing the problems of their own company and the experience of their own company, try to come to some kind of a solution of their common difficulties.

Mr. GESELL. Then am I correct in saying that the meetings that were held in your office were for the purpose of working out a uniform program and getting specific commitments from company officers to follow the same?

Dr. HUNTER. Not necessarily.

Mr. GESELL. That isn't an answer to my question, Dr. Hunter.

Dr. HUNTER. Well, the companies did not adopt a uniform basis on anything after these conferences.

Mr. GESELL. You mean there was no single time when all of the companies agreed to what was proposed.

Dr. HUNTER. That is true.

Mr. GESELL. As a result of the conferences, however, considerable uniformity developed, did it not?

Dr. HUNTER. Yes.

Mr. GESELL. My question was, Was it not the purpose of the meetings held in your offices to bring about that uniformity?

Dr. HUNTER. No; I should think not.

Mr. GESELL. What was the purpose, then?

Dr. HUNTER. The purpose of these meetings was to pool our experiences, to discuss our common problems, and if it appeared that the companies should adopt some measure of uniformity, all right; but most of the companies represented in these meetings, after discussing the matter, decided for themselves whether they were going ahead or not. It was not dependent on what other companies did.

Mr. GESELL. This was just putting another actuarial society on top of the actuarial societies you already had.

Dr. HUNTER. No; it was much more intensive.

Mr. GESELL. You mean you could discuss the things in greater detail.

Dr. HUNTER. Not only in greater detail, but more freely than you could at an actuarial society meeting.

Mr. GESELL. What do you mean, more freely?

Dr. HUNTER. Because there were certain things that we wouldn't want to broadcast.

Mr. GESELL. You had 26 companies sometimes present at these meetings?

Dr. HUNTER. Yes.

Mr. GESELL. Broadcasting something to actuaries of the 25 biggest companies, do you consider that not to be broadcasting?

Dr. HUNTER. I certainly do; because every man there could be relied upon.

Mr. GESELL. Then who was it that you were concerned would learn about your discussion? It wasn't the actuaries if you had 26 of them present.

Dr. HUNTER. There was no concealment at the meetings at all. That is what I am trying to bring out.

Mr. GESELL. You said a moment ago that you didn't want your discussions broadcast.

Dr. HUNTER. There was no concealment about these meetings. It was known to the press, the insurance press, that these meetings were going on, but if you intend to get out a set of annuity rates in which there was an increased premium, it was certainly undesirable to have it known to your entire field force because you would get a large amount of business, much more than you wanted, and if any of these letters are marked confidential, it was intended to keep them from others and preventing agents from knowing what the company alone should know.

Mr. GESELL. You did what I was driving at. If you are meeting for the purpose of getting out a higher set of premium rates then you don't want your discussions known to the agent.

Dr. HUNTER. That is correct.

Mr. GESELL. The purpose of these meetings was to reach as near as possible a uniform program for increased annuity rates, was it not?

Dr. HUNTER. Yes; I think that is a fair statement.

Mr. GESELL. If the committee please, there is before each member of the committee a schedule entitled "Principal intercompany meetings re annuities." For the convenience of the committee, the staff of the Commission has prepared this schedule. On the extreme left-hand margin there are listed the names of 26 United States companies and three Canadian companies which at one time or another have been represented at the meetings indicated on the schedule. You will note that the schedule reflects a total of 14 meetings held during the period from March 15, 1933, to October 5, 1938, inclusive.

The schedule also reflects for the United States companies the percentage of insurance in force and the percentage of admitted assets represented at each meeting. You will note that on all but one occasion the companies represented have always accounted for over 50 percent of the assets of all United States companies, and at one meeting, that of April 22, 1938, over 85 percent of the assets of the United States companies were represented.

The documents and testimony in support of this schedule will be introduced during the course of the hearing.

I have referred to the schedule in advance in order that the committee may more readily follow the testimony which is to come, and I would like, if the committee please, to offer the schedule for the

record at this time with the understanding that the supporting information will be introduced during the course of the hearing.

Acting Chairman REECE. It may be admitted, the supporting testimony to be introduced later.

(The schedule referred to was marked "Exhibit No. 754" and is included in the appendix on p. 4828.)

Mr. GESELL. You referred a moment ago, I believe, Dr. Hunter, to a pooling of mortality experience by the five largest companies. That was in 1933, was it not?

Dr. HUNTER. The work was commenced in 1932 and was completed in 1933.

Mr. GESELL. That was a gathering together of the mortality experience of the five largest companies on their annuity contracts, was it not?

(The witness nodded in the affirmative.)

Mr. GESELL. Do you recall how many meetings were held amongst the representatives of the five companies in connection with this matter?

Dr. HUNTER. May I just emphasize again that all this was done at the request of the insurance department. That first set of meetings was not volunteered by the companies.

I should think that the first meeting was held in the spring of 1933, and it was held at the office of Mr. Gore in Newark, who has since retired. At that time the insurance department suggested that the experience of the five companies be sent to other companies, so that they might be informed of the experience of these companies on annuities. Accordingly, I sent copies of that experience to a number of companies, and again at the suggestion of the insurance department the first meeting was held at my office, and I should think it may have been in May of 1933, at which probably 15 companies were represented.

Mr. GESELL. Why was it necessary for the insurance department to suggest that the companies get together on this mortality situation at this time?

Dr. HUNTER. Because there is a clause in the law, section 97, paragraph 9, which says, "No such corporation shall issue any policy that shall not appear to be self supporting on reasonable assumptions as to interest, mortality, and expense," and the insurance department felt that there was a possibility that annuities were not being issued under such conditions as stated in the law.

Mr. GESELL. So he suggested to you that you get together and see what you could do to eliminate that situation if it existed?

Dr. HUNTER. Yes.

Mr. GESELL. Did he attend these meetings?

Dr. HUNTER. No; but we reported to the insurance department our findings.

Mr. GESELL. Refreshing your recollection with a letter of Mr. Hutcheson, of the Mutual Life Insurance Co., does that not indicate that there was a meeting in your office on March 15, 1933, with respect to this matter?

Dr. HUNTER. Yes. I said, as you remember, in the spring. I couldn't get it any nearer than that.

Mr. GESELL. And then there were subsequent meetings held, were there not, from time to time?

Do you recognize this letter which I show you, signed by yourself, addressed to Mr. E. E. Cammack, of the Aetna, dated April 22, 1933?

Dr. HUNTER. Yes. May I read it?

Mr. GESELL. I am going to read it to you.

I should like to offer this letter for the record at this time.

(The letter referred to was marked "Exhibit No. 755" and is included in the appendix on p. 4830.)

Acting Chairman REECE. It may be admitted.

Mr. GESELL. The letter states, under date of April 22, 1933 [reading from "Exhibit No. 755"]:

A month ago there was a meeting in my office of the representatives of five companies—Metropolitan, Prudential, Equitable, Mutual, and New York Life—with regard to a proposed increase in the annuity rates. It was then suggested that we prepare the experience of the five companies for recent years so as to show whether the mortality had been improved or not. For your information, I am enclosing a synopsis of this investigation. It should be stated, however, that there are two of the companies which included annuities issued in connection with single-premium policies. Arrangements are being made to have these omitted from the experience, but they are not likely to affect it materially. It is anticipated that the effect of omitting them would be to slightly decrease the mortality. Of course, it is understood that this material is for the confidential information of the Travelers, Connecticut General, and yourselves.

We had a meeting of the representatives of the five companies at the Prudential yesterday, during which your letter to Mr. Little of the 12th instant and also your more recent letter to Mr. Hutcheson were read. We are very glad to learn that the Hartford companies are ready to cooperate with us in obtaining an increase in the annuity rates.

The following program was decided to be the most feasible, although not all the members present wished to make a final decision without further consultation with other officers of their companies:

First. Immediate annuities nonparticipating: Both male and female to be taken on the American annuitants table as of 1 year younger, the rate of interest to be 3¾ percent and the loading 5 percent of the gross premium. This would apply to cash refund or continuation of annuity to beneficiary, also to joint lives.

Before proceeding with the rest of the letter, Dr. Hunter, if I may pause there a moment, you were considering at these meetings I gather from this letter not only questions of mortality experience but also loading and interest rate.

Dr. HUNTER. That is true.

Mr. GESELL. Those are the three factors which go to make up the annuity rate.

Dr. HUNTER. Yes.

Mr. GESELL. If the superintendent of insurance in the State of New York was interested in this matter only because he wanted the contracts on a sound basis, was there anything in his discussions which would lead you to believe that he wanted uniformity in rates?

Dr. HUNTER. I am afraid I couldn't answer that. It was more to assure himself that the rates charged, where the bases had anything to do with mortality or interest or loading, came within what he thought were reasonable assumptions.

Mr. GESELL. He wanted each company to sit down and make sure its contracts were safe.

Dr. HUNTER. I should think all the companies operating in New York State wanted to make sure of that.

Mr. GESELL. If one company decided to use one mortality table and another decided to use another, if one company decided to use one interest factor and another company decided to use another, if

one company's loading or expenses were less or greater than another, he didn't care at all, provided the contracts of each company were safe; is that not a fact?

Dr. HUNTER. On the whole.

Mr. GESELL. So you were going quite beyond these preliminary discussions with the insurance commissioner when you proceeded to establish, or attempt to establish uniform rates, were you not?

Dr. HUNTER. I hardly think so. When companies are operating on the same basis for many years, have been for 30 or more years under the same conditions, it seemed perfectly natural that they should follow the same procedure.

Mr. GESELL. You mean that each company spends just as much money to put the annuity business on its books and keep it there?

Dr. HUNTER. I don't mean to say that.

Mr. GESELL. You were agreeing on the loading factor here, were you not?

Dr. HUNTER. May I say, we were talking of uniformity. So far as uniformity is concerned, the rates which the three companies, Equitable and Mutual and New York Life, used for—that would be the same that had been used together for many, many years, probably 40 years. So it was perfectly natural we get together on a new rate, on the advice of the actuaries.

Mr. GESELL. Was there any—

Dr. HUNTER (interposing). In other words, it wasn't a sudden jog, it was procedure for many, many years.

Mr. GESELL. The result of these conferences we are about to discuss has been to bring about a greater and greater uniformity in annuity rates.

Dr. HUNTER. Yes.

Mr. GESELL. I will come back to that question in a moment as we proceed [reading from "Exhibit No. 755"]:

Second. Deferred annuities: Single premium deferred annuities nonparticipating to be treated the same as immediate annuities whether with or without return at death within the deferred period.

Then the third item, skipping a bit:

Retirement annuities participating: Under retirement annuities would come the cases where a yearly deposit was made as in a sinking fund to purchase an annuity at usually ages 50 to 70. It was agreed that the loading would be $12\frac{1}{2}$ percent of the gross and that the rate of interest prior to the date the annuity was entered upon would be $3\frac{1}{2}$ percent. The rate used in converting the cash value into annuity at maturity age would be the net American annuitant's select $3\frac{1}{2}$ percent table. It was thought that the age should not be moved back 1 year, but some tests are to be made to determine whether the new gross rates, less 3 percent, would result in any anomalies by comparison with the above.

Fourth. Survivorship annuities: There did not seem to be any reason for coming to a decision regarding survivorship annuities as so few of them were issued, and as some companies issued nonparticipating and others participating forms.

You also discuss options in insurance policies, and state in the last two paragraphs of your letter [reading further from "Exhibit No. 755"]:

It was not thought feasible for all companies to put the program into effect until the 1st of July, especially as one company at least had a printed pamphlet covering extensive joint and survivorship annuity rates. One company announced that the new program would go into effect at once if there was cooperation among the companies.

We shall appreciate it if you will take up the foregoing suggestions with the Travelers, Connecticut General, and any of the other companies which you wish to consult, then let us know your ideas as soon as possible. We should like to have a definite program to announce at the Senior Actuaries Club, as a number of other companies propose to follow the lead of the principal companies.

There was a meeting held thereafter, I believe you said sometime in May, was there not?

Dr. HUNTER. That would be my impression.

Mr. GESELL. Will you tell us what decisions were reached at that meeting?

Dr. HUNTER. Well, I can show you the results of the decisions, if that is near enough for your purpose.

Mr. GESELL. That wasn't my question at all.

Dr. HUNTER. But I can't remember, naturally, we had so many meetings and discussions of all types.

Mr. GESELL. Let me read you a memorandum of Mr. Flynn dated May 19, 1933,¹ which he prepared at the conclusion of the conference, and ask you if this does not refresh your recollection as to what happened. It is entitled "Re: Conference of Companies Life Annuity Rates—Policy Values" [reading from "Exhibit No. 756"]:

A conference of the actuaries of 22 of the leading life companies was held at the New York Life yesterday to discuss the above subjects.

Life annuities.—After much discussion, 18 companies voted tentatively for the following uniform program:

Rates.—Single premium life annuities (immediate annuities, cash refund, and joint life annuities)—

Men: American annuitants select, net rates taken for 1 year younger than actual age; $3\frac{3}{4}$ percent interest, loaded $4\frac{1}{2}$ percent of gross.

Women: American annuitants select, net rates for men taken 5 years younger than actual age; $3\frac{3}{4}$ percent interest, loaded $4\frac{1}{2}$ percent of gross.

Commissions.—Three percent to soliciting agent; $\frac{1}{2}$ percent overriding to general agents.

Date effective.—On or about July 1, 1933, not later than August 1.

Does that refresh your recollection as to what was said about life annuities at that meeting?

Dr. HUNTER. It does.

Mr. GESELL. That is a correct statement, is it not?

Dr. HUNTER. That is a correct statement.

Mr. GESELL. It says 18 companies voted tentatively. Did you have votes at these special meetings?

Dr. HUNTER. I think that language is a little loose, if we are applying the legal standpoint; that really meant the companies intended to recommend to their companies, the actuaries intended to recommend. It may be that some of us were in a position to say that we were going to do it anyhow; we had the authority to state so.

Mr. GESELL. On each of these propositions what would you have, a show of hands?

Dr. HUNTER. We had a show of hands, but that was a tentative affair.

Mr. GESELL. Is it not a fact that you distributed to each person present a schedule upon which he could show the voting of the companies?

Dr. HUNTER. No; we did not at each of them. As a matter of fact, I stated again and again that that voting did not bind any company, again and again.

¹ Entered later as "Exhibit No. 756." See appendix, p. 4831.

Mr. GESELL. Why was the vote taken?

Dr. HUNTER. Just to get a consensus of opinion of the actuaries.

Mr. GESELL. I notice this matter discussed upon which 18 companies voted tentatively; you even went down to the question of commissions to agents and overriding commissions to general agents. Why was it necessary to make recommendations with respect to that matter?

Dr. HUNTER. In the interest of the policyholders.

Mr. GESELL. You will have to explain that to me.

Dr. HUNTER. Let me start with this: That when we first took up the question of commissions it was purely a side issue, and the various companies stated what their commission was and it was really the result of stating what the other fellow was able to get business at that resulted in this change. The actuaries, of course, had nothing to do with commissions; it was just a question of taking it up with the agency force.

Mr. GESELL. As a result of your discussions, uniform agreements on commissions were arrived at, were they not?

Dr. HUNTER. Not uniform, but they covered a great many companies.

Mr. GESELL. You were going to explain why that was in the interest of the policyholders.

Dr. HUNTER. Because any saving, I should say, in expenses was a benefit to the mutual policyholders.

Mr. GESELL. Your agreement already covered expenses, Dr. Hunter, when you reached your agreement on loading.

Dr. HUNTER. Not necessarily, because taxation was increasing.

Mr. GESELL. Isn't it a fact that the agents commission is just part of the loading on the policy? Having reached the agreement on the total loading figure, what difference did it make whether one company paid more or less commission within that range?

Dr. HUNTER. It didn't make any difference as far as any of us were concerned, it was up to each individual company to decide. We didn't all agree to that.

Mr. GESELL. Why did you discuss it?

Dr. HUNTER. Because it happened to be just one of the subjects which we would like to take up in connection with the question of our loading.

Mr. GESELL. Why was it of interest to the policyholder to discuss it?

Dr. HUNTER. I have already tried to answer that. I am not trying to evade any questions; I simply make the one statement that any saving in expense in a mutual company eventually is to the benefit of the mutual policyholders.

Mr. GESELL. It resulted entirely in eliminating in one field as between the companies any competition at all on the question of these annuities, did it not?

Dr. HUNTER. I shouldn't think the question of commission paid to an agent would eliminate competition.

Mr. GESELL. You know, don't you, that annuities are sold very largely by brokers, Dr. Hunter?

Dr. HUNTER. No, I do not.

Mr. GESELL. They are not sold by brokers?

Dr. HUNTER. Not in a company like ours. In a great many others they are not sold by brokers at all.

Mr. GESELL. They are sold by brokers.

Dr. HUNTER. They are sold in some companies.

Mr. GESELL. Isn't it a fact that the broker shops around to where he can get the highest commission?

Dr. HUNTER. That I don't know.

Mr. GESELL. After 40 years' experience you must have some judgment with respect to that.

Dr. HUNTER. Surely there are some companies that permit it, but the most of the companies do not accept business from brokers. I should think a very small proportion of the business in my company comes from brokers.

Mr. GESELL. Do I understand you to say, though, that the fact that the companies offer a uniform commission on annuities has no effect on directing more business to one company than another?

Dr. HUNTER. I can quite understand that if one company pays more than another, that the brokerage business would tend to go to that company.

Mr. GESELL. It would get more business.

Dr. HUNTER. It would tend to, yes.

Mr. GESELL. So that when you pay even commissions you eliminate that factor, do you not?

Dr. HUNTER. I think so, but we never got to a uniform basis.

Mr. GESELL. Every time I use the word "uniform" you say there are one or two companies that didn't do it.

Dr. HUNTER. Yes.

Mr. GESELL. You have testified here already that a large number of companies reached an agreement exactly the same on these annuity commissions have you not?

Dr. HUNTER. Yes, but a number didn't, but—

Mr. GESELL (interposing). With respect to those that entered into the uniform agreement, you eliminated this factor, did you not, by reaching an agreement on commissions?

Dr. HUNTER. Yes.

Mr. HENDERSON. Mr. Gesell, if I gather the point you are making with Dr. Hunter, it is that as far as the agreement went there was a genuine uniformity. That is, there is no doubt about that, as Dr. Hunter indicates. Although some of them did not conform to the agreement, there was very definitely a uniform understanding and a tentative agreement reached at the meeting. Isn't that correct?

Mr. GESELL. That is right.

Mr. HENDERSON. So Dr. Hunter is talking about whether they enforced that agreement and you are talking about coming to an agreement.

Mr. GESELL. I believe not. Didn't you testify that a large number of companies did put into practice this uniform commission agreement?

Dr. HUNTER. Yes.

Mr. GESELL. The memorandum goes on to state [reading from "Exhibit No. 756"]:

It was first voted that rates for male lives be based upon net rates for 1 year younger than actual age, loaded 5 percent. and to use for females the

female table of net rates 1 year younger than actual age, loaded 5 percent. For ease in calculation of joint plans and for economy in manual space, it was thought more desirable to use one table, that for male lives. The basis of rates finally decided upon is a practical equivalent for females and $\frac{1}{2}$ of 1 percent loading lower for males * * *.

The companies voting for the above proposal were: New York Life, Mutual Life, Equitable, Metropolitan, Aetna, John Hancock, Travelers, Berkshire, United States Life, Massachusetts Mutual, Connecticut General, Prudential, Home, National of Vermont, Sun Life, Canada Life, Mutual Benefit, and Northwestern Mutual.

This is a part of the memorandum I want to call to your attention:

The last two companies were not represented, but Chairman Hunter read letters stating that they would go along with the majority of the companies both as to rates and commissions.

The last two—that would be the Mutual Benefit and the Northwestern Mutual. Do I understand companies sometimes write in to your conferences and say, “We will go along with what the majority does,” even before they know what the decisions are going to be?

Dr. HUNTER. Oh, no.

Mr. GESELL. Is that what happened in this case?

Dr. HUNTER. I should certainly say not.

Mr. GESELL [reading further from “Exhibit No. 756”]:

The last two companies were not represented, but Chairman Hunter read letters stating that they would go along with the majority of the companies both as to rates and commissions.

Dr. HUNTER. They had all the information in advance of what was likely to take place.

Mr. HENDERSON. That is very interesting, Mr. Gesell. Had it been decided in advance, Dr. Hunter, that the commissions would be 3 percent, the loading would be so much, the interest assumption would be so much? You say they knew, that they had the information as to what was going to take place. Had somebody made a predetermination as to what they were to be?

Dr. HUNTER. What I meant to say was that no company would be foolish enough to agree to some program which it didn't know something about in advance. That evidently indicates that I had talked to the representatives of these two. In other words, they wouldn't go in blind.

Mr. HENDERSON. I didn't undertake to get that assumption out of it, but it would seem to me that Mr. Flynn's language is very plain here:

stating that they would go along with the majority of the companies both as to rates and commissions.

You mean you had talked to the companies and before the meeting you had come to some general agreement as to fixing these definite percentage rates?

Dr. HUNTER. I would say that there had been some prior meeting to that which is not indicated here.

Mr. HENDERSON. Attended by all of them?

Dr. HUNTER. Certainly these two.

Mr. HENDERSON. I didn't ask that. I said attended by all of them.

Dr. HUNTER. Well, it is difficult for me to remember the order of these meetings and how many took place. I should certainly assume that before this there was some kind of a meeting.

Mr. GESELL. The only meetings that this schedule reflects, and that there has been any evidence of that we can determine, are two meetings of the five big companies. Do I gather from that then that the five principal companies really make these decisions and then bring in the other fellows to nod their heads?

Dr. HUNTER. Absolutely not! Absolutely not! but there must have been some talk on that with these men. I am sure of that.

Mr. HENDERSON. What I think Dr. Hunter means is, when companies and representatives of industrial groups are getting together for consideration of uniformity, it is usually pretty well known what they are going to get together about. They have some idea as to what they are going to discuss, and a pretty general understanding as to what they are likely to agree to. Isn't that about the nature of it?

Dr. HUNTER. It would have been discussed in some way between some of us before the meeting, I assume. I am rather being put at a disadvantage, not having a complete record of what happened, and I am not trying to evade anything at all.

Mr. HENDERSON. We are not trying to confuse, confute, or confound you. What we are trying to get at is exactly the procedure by which this uniformity and this agreement are reached. Any time you are not certain you are not only at liberty to say it, but, in my opinion, you must say it. We are not trying to trap you into anything.

Dr. HUNTER. I don't like to say what happened in public in connection with this, but I am afraid I have to. There were companies that were paying, prior to this time, much higher commissions than several of the large companies, and when they found that the larger companies were getting a substantial amount of business at a much lower rate they were glad to know that, and make the necessary change. I hesitate to say that, because it might be considered as a criticism of those companies, and notwithstanding the fact that a number of them paying much higher rates of commission weren't doing any better in the matter of new annuities. That is why I hesitated when you asked, "Didn't the business go to the companies that paid the highest commissions?"

Mr. HENDERSON. I am glad you made that statement, because I think you would feel with us that it is necessary to get a complete record rather than to get it by inference.

Dr. HUNTER. I do, and I want to say this in connection with annuities: The annuitants are looking for security in the first place, and if it is a small company, not necessarily insecure, which is paying a high rate of commission, it is more likely that the business will go to a large company with a great deal of security that is paying a small commission.

Mr. HENDERSON. That's right.

Now, in these companies that were paying the higher return, Dr. Hunter, didn't they know of the lower rates that were being paid by their competitors?

Dr. HUNTER. Several of them did not know until these meetings.

Mr. HENDERSON. I see.

Mr. GESELL. The memorandum continues [reading from "Exhibit No. 756"]:

The following companies did not vote for the proposal for the reasons stated: Fidelity Mutual: Had not had time to discuss the matter with officials; probably would agree.

Provident Mutual: Prefers 4-percent interest but would adhere to 3½-percent outside commission. Mortality had been about 100 percent of expected on American annuitants select. Would increase rates but probably not so much as proposed.

Penn Mutual: Matter had not been discussed with officials. Would prefer 3-percent commission to soliciting agents; 1 percent overriding. Would probably go along with other companies, however, to new basis.

Phoenix Mutual: Thinks interest basis all right but would probably want to adhere to 2-percent commission to solicitor, one-fourth percent overriding—reducing gross rates of other companies correspondingly (about 1¼ percent).

Connecticut Mutual: Feels 4-percent interest better basis. Would adhere to 3½-percent outside commission and increased rates but probably not so much as other companies.

Guardian: Thinks increases too great but probably will go along with other companies after further discussion with officers.

New England Mutual: Not present, but feeling of some officials—particularly J. Hancock—that they would not increase so much, although Dr. Hunter felt confident that they would go along with other companies.

First of all, I notice that there were some companies that didn't agree because they hadn't had time to discuss the matter with their officials. That would indicate to me quite clearly that those who did vote on the proposal had already consulted with their companies and were entering a binding commitment at the time of this meeting.

Dr. HUNTER. There were no binding commitments at that time. A company might vote for it and might change its rates any time it pleased. Some of the companies were in a position to speak; some of the actuaries were in a position to speak for the companies. Others were not.

Mr. GESELL. As a matter of practice, regardless of whether there was any signed contract or formal commitment here, those companies that voted for a proposal were men who were in a position to speak for their companies.

Dr. HUNTER. Generally so, but occasionally these men found that they were not and changed later.

Mr. GESELL. How do you account for the fact that some of these companies which expressed a disagreement with the proposal indicated that they would go along?

Dr. HUNTER. I couldn't speak for them.

Mr. GESELL. Was that frequently an occurrence, that a company which didn't agree on the details of the program was willing to go along for the sake of uniformity?

Dr. HUNTER. I doubt if it was for the sake of uniformity, but they deemed it best to go along.

Mr. GESELL. For what reason?

Dr. HUNTER. I can't speak for these other companies.

Mr. GESELL. Oh, well, Dr. Hunter, you were the presiding officer at a series of meetings where you were going to consider this matter. You must have some opinions which you would give the committee to help us with the problem.

Dr. HUNTER. I should be very glad to state my opinion, if that be satisfactory. My feeling is that if I were in one of these companies, they are between the horns of a dilemma. If the companies of their own size do adopt these uniform rates, then that company gets far more—that company which did not reduce rates got far more—than its share of the annuities; and therefore it was advantageous to find out what these other companies were doing and go along, for the

protection of themselves, so that they should not get an undue proportion of that.

MR. GESELL. You mean that none of these companies wanted a lot of this business?

DR. HUNTER. Not an undue proportion, compared with their assets.

MR. GESELL. The memorandum goes on to state——

DR. HUNTER (interposing). At the rates then prevailing, Mr. Gesell.

MR. O'CONNELL. I am not sure I understand that. Do I understand you to say a company which might be willing to sell insurance at a lower rate would be unwilling to do so because it was afraid it would get too much business?

DR. HUNTER. Which was selling, not insurance, but annuity business. They would be afraid to get too much of it because it was felt, judging from the opinion of the other companies, that the rates were too low.

MR. O'CONNELL. But I am assuming, and it was the fact, apparently, that some companies were willing and felt it would be good business judgment to sell annuities at a lower rate, and you want us to believe that in your view, companies that wanted to do that would at the same time be unwilling to do it because they would get too much business. I have difficulty in understanding that.

DR. HUNTER. I rather have difficulty in understanding you, sir. If one company in a certain group about the same size were to decide that it would continue rates for annuities which were lower than the other nine decided to adopt, say it was 4-percent interest that had been assumed and they decided to go to a lower rate of interest, $3\frac{1}{2}$, which would mean that there would be a higher cost for the same amount of annuity, then the one company that didn't go along would be apt to get a very large amount of business compared to its size, and the chances are that the other companies were right in going to a lower rate of interest. As a matter of fact, they were right as conditions showed. So that company which was unduly cautious in changing might be losing money.

MR. O'CONNELL. I have difficulty in understanding the position of the hypothetical company that wants to and thinks as a matter of judgment it can sell annuities at a lower rate, and at the same time in your view isn't willing to do it because it would be bad business. I mean, it can't be that they thought it was both good and bad business to sell annuities cheaper than the majority. In the light of the later experience, it might be they have been making a mistake, but at that time I assume from what you say there were some companies that wanted to and felt it would be good business for them to sell annuities cheaper than the majority.

DR. HUNTER. May I state this, that some companies held back quite a while in that smaller group, based on their judgment.

MR. O'CONNELL. I was only addressing myself to your explanation of why a company which at one point wanted to sell annuities cheaper than the majority was impelled for some reason or other not to do so. Your explanation of it was that they would want to sell annuities cheaper than the majority, but they would not do so because they would get a disproportionate share of the business, as I understood you. I am not making myself clear, apparently.

Mr. GESELL. Perhaps, Mr. O'Connell, a couple of paragraphs from the rest of this memorandum will help to shape up what you have in mind.

Dr. HUNTER. I am afraid I don't quite understand. I would say it was a matter of judgment.

Mr. GESELL. You were anxious for uniformity.

Dr. HUNTER. No; our company didn't care whether there was uniformity or not; they were going ahead. If the other companies came along, it was good.

Mr. GESELL. You are talking about the New York Life Insurance Co. and the position of its membership and I am talking about the actuaries who met at the meetings. The actuaries at the meeting wanted uniformity.

Dr. HUNTER. We thought it was desirable to have uniformity.

Mr. GESELL. Why was that? Why couldn't the Guardian here, which thought the increase was too great, go along with its program?

Dr. HUNTER. It was at perfect liberty to do so.

Mr. GESELL. May I call your attention to another paragraph in the memorandum [reading from "Exhibit No. 756"]:

After the meeting the general feeling was that if some missionary work were done on the Connecticut Mutual, Phoenix Mutual, and New England Mutual, practically all important companies, with the possible exception of the Provident Mutual, would go along on the proposed program.

Dr. HUNTER. Is that from anything I wrote?

Mr. GESELL. I am reading from the memorandum of Mr. Flynn.

Dr. HUNTER. Ah! I never said anything of the sort. I never attempted any missionary work at any time.

Mr. GESELL. What do you imagine Mr. Flynn meant when he said, "if some missionary work were done on the other companies"?

Dr. HUNTER. I assume Mr. Flynn felt it would be good to have other companies of that type go along with them.

Mr. HENDERSON. You indicated that before this meeting took place at which two of the companies had indicated they would go along with the majority, there had been some discussion of what was to take place at the conference. I gather from this statement that there hadn't been anything said at the discussion prior to the meeting about missionary work, is that it?

Dr. HUNTER. May I just look at the memorandum?

Mr. HENDERSON. At the bottom of page 2 of the mimeographed release.

Dr. HUNTER. May I have the date of my note, Mr. Gesell? What was the date of my memorandum?

Mr. HENDERSON. Dr. Hunter, my discussion with you concerns Mr. Flynn's memorandum. If you look at the bottom of page 2, there were these two companies, Mutual Benefit and Northwestern Mutual, which had written you letters stating that they would go along with the majority. I asked you about that, and you said there had been a prior meeting and they knew pretty well what was to come up at this meeting.

Dr. HUNTER. I think that this letter is dated May 19. This memorandum of Mr. Flynn's, which I haven't seen until the present time, is dated May 19, and that followed a meeting of the Actuarial Society at which undoubtedly there had been some discussion of the program.

So that accordingly, both of these gentlemen representing the companies had been told at that meeting of the Actuarial Society what we had in mind, what the discussions were over.

Mr. HENDERSON. I am getting now to this question Mr. Gesell asked you. On page 4 it says:

After the meeting the general feeling was that if some missionary work were done—

and you indicated you had nothing to do with that, that you had done no missionary work, that you hadn't tried to persuade other companies to come into the general agreement. My question was whether in the discussion leading up to this meeting, there was any indication given by you to these other companies about missionary work.

Dr. HUNTER. All I did at these meetings was to express my point of view, try to bring forward my own experience, the experience of my company, and if that influenced the others, all right, but there was no such thing as what might be called missionary work on my part.

Mr. HENDERSON. This thing is very specific, though:

After the meeting the general feeling was that if some missionary work were done.

Dr. HUNTER. That says after the meeting. It wasn't during the meeting.

Mr. HENDERSON. That is what I am getting at: at the meeting itself, and in these prior discussions which you indicated you had with the two companies which were willing to go along with the majority, you, yourself, didn't indicate that you were going to talk about missionary work.

Dr. HUNTER. No.

Mr. HENDERSON. That is my only point. I wanted to get it clear that anything that developed about how to bring the others into line wasn't a part of your undertaking.

Dr. HUNTER. Not at all.

Mr. HENDERSON. That is all I am trying to develop, but it is very evident it was in the air and it must have come about some way from the discussions in the meeting.

Mr. GESELL. Was there discussion at the meeting as to the desirability of getting all these companies in line on this program?

Dr. HUNTER. The very fact that we met together would indicate that.

Mr. GESELL. Then I take it from your answer that there was.

Dr. HUNTER. That is rather difficult for me to answer.

Mr. GESELL. Will you do the best you can, Dr. Hunter, to answer my question?

Dr. HUNTER. What was the question.

(The reporter read Mr. Gesell's question.)

Dr. HUNTER. I should think I would like to go back in answering that question to this point, that we were in the middle of the so-called bank holiday, and we were facing an exceedingly serious condition and no one knew what was to come out at that time, and the actuaries, being concerned as it were, were naturally anxious to have changes, especially as the insurance departments were after that, and I think I might therefore say that it was desirable in the opinion of those present to have uniform rates.

Mr. GESELL. There is one more portion of the memorandum that I would like to call to your attention. It says [reading from "Exhibit No. 756"]:

Throughout the conference it was apparent that the larger companies were quite willing to make changes for the good of their companies and the business in general. The opposition was generally found in the smaller, self-sufficient, participating companies. If these concerns could be brought to a better appreciation of the current situation, the present is a wonderfully fine opportunity for clearing up many of the present troubles of the life business.

I would like to offer this memorandum for the record.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 756" and is included in the appendix on p. 4831.)

Mr. HENDERSON. Mr. Gesell, Mr. Flynn has not identified that. Do you want to make a statement as to how this memorandum came in?

Mr. GESELL. We can adopt one of three courses as the committee pleases. I will state now that that is a correct copy of a memorandum from the files of the Travelers Life Insurance Co. I have a representative who will testify to that if you want it on sworn testimony. Or we can bring Mr. Flynn down at some later time.

Acting Chairman REECE. I should think that would be satisfactory, the statement by yourself. If anything is wrong with the memorandum, Mr. Flynn could file an objection.

Mr. GESELL. If I recall correctly from that memorandum, it was agreed that the companies would write in to you and let you know what they were going to do about the program.

(The witness nodded in the affirmative.)

Mr. GESELL. Do you recognize this schedule which I show you as a schedule entitled "Memorandum Regarding New Annuity Rates," dated June 13, 1933, as a schedule which you prepared showing the attitude of the various companies as indicated to you?

Dr. HUNTER. Yes.

Mr. GESELL. I should like to offer this schedule for the record.

Acting Chairman REECE. It may be admitted.

(The schedule referred to was marked "Exhibit No. 757" and is included in the appendix on p. 4833.)

Mr. GESELL. The schedule states [reading from "Exhibit No. 757"]:

The following companies have decided to adopt the new schedule of rates, at least for immediate annuities, the dates being given wherever stated: Metropolitan, on or about July 1; Prudential, ditto; New York Life, ditto; Equitable, on or about July 1; Mutual, ditto; Travelers, not later than August 1; Aetna, on or about August 1; Connecticut General, ditto; Union Central—

Nothing from Union Central or Northwestern Mutual—

John Hancock, intend to revise annuity rates generally to conference basis but not as early as July 1; Berkshire Life, as early as possible; United States Life—

Nothing from the United States Life or the Minnesota Mutual.

State Mutual, plans to adopt the new single premium immediate annuities on January 1, 1934; Mutual Benefit, does not expect to adopt the same basis but their rates will be noncompetitive; Penn Mutual, favorably considering adopting new rates; Massachusetts Mutual, final decision not taken—will doubtless adopt; Canadian companies, majority in favor of adopting somewhat similar rates in near future; Fidelity Mutual, will increase rates but basis and time not decided; Guardian Life, ditto; New England Mutual, no definite decision on account of

absence of president; Connecticut Mutual, expect to increase rates but not to conference basis—

The same for Provident and the same for the Phoenix Mutual—National Life, may adopt entire program in near future; Home Life, may go to conference basis but not before January 1, 1934.

Do I understand that that memorandum is a correct summary of information which you received concerning this matter from responsible officers of the companies indicated?

Dr. HUNTER. I would say "Yes."

Mr. GESELL. What did you mean when you said, about the Mutual Benefit, "Their rates will be noncompetitive"?

Dr. HUNTER. I was probably quoting from a letter which they sent to me or a telephone message.

Mr. GESELL. Then let me ask you, Dr. Hunter, what do you think they meant?

Dr. HUNTER. I think they meant they intended to go to a higher basis than any of the rest of us.

Mr. GESELL. I was stressing the words "competitive" and "non-competitive." Does that not indicate that one of the factors in this decision for uniform rates was the factor that there would not be any competitive advantage to one company or another?

Dr. HUNTER. Well, I want to answer you without any attempt at evasion. Let me put it this way to you: The Mutual Benefit has very little annuity business and so far as I remember has always charged a higher rate for the same amount of annuity than the other companies, and probably intended to continue doing so.

Mr. GESELL. And you had no quarrel or concern with any company which charged rates higher than the conference basis?

Dr. HUNTER. No; I would like to add, "or lower."

Mr. GESELL. Well, I thought we discussed that matter in some detail in connection with the previous memorandum and you indicated quite clearly that there was a desire that companies come to a uniform decision on the conference rates and no companies sell at a lower rate, so what did you mean when you said "or lower"?

Dr. HUNTER. We couldn't make any company adopt a lower rate if it desired not to.

Mr. HENDERSON. You mean you have no sanctions for compulsion, there is no legal basis. You couldn't write a contract which would compel them to abide by this agreement on uniformity.

Dr. HUNTER. Thank you.

Mr. GESELL. Do you recognize this letter, entitled "Notice To Agents—New Annuity Rates—June 14, 1933," as a letter written by you to the agency force of your company announcing the new rate program?

Dr. HUNTER. Yes.

Mr. GESELL. Was the answer "Yes"?

Dr. HUNTER. Yes.

Mr. GESELL. I wish to offer this for the record.

Acting Chairman REECE. It may be admitted.

(The letter referred to was marked "Exhibit No. 758" and is included in the appendix on p. 4834.)

Mr. GESELL. Now, I wish to show you a letter signed by you dated March 12, 1934, addressed to John M. Laird, the vice president of

the Connecticut General. Do you recognize that as a copy of the letter which you wrote?

Mr. GESELL. This letter states [reading from "Exhibit No. 759"]:

A meeting was held at my office on March 8 of the actuarial representatives of the Metropolitan, Prudential, Mutual Life, and Equitable, with regard to cash surrender values, policy loans, and options in policies. Incidentally the bases of annuities were discussed. It was decided to invite the representatives of a number of the principal companies to join with us in considering these matters. I am accordingly writing to about 14 of the largest companies today asking them if they could meet with the actuaries of the other 5 companies at my office on Friday, the 23d instant, at 10 o'clock.

In order to focus our attention on a definite plan for increasing the surrender charges, a program is enclosed.

I wish to offer this letter for the record.

Acting Chairman REECE. It may be admitted.

(The letter referred to was marked "Exhibit No. 759" and is included in the appendix on p. 4834.)

Mr. GESELL. That indicates that subsequent to the general meeting of May 18, 1933, which we discussed a moment ago, the five principal companies met on March 8, 1934, and discussed the basis for annuity rates among other matters.

(Dr. Hunter nodded his head in the affirmative.)

Mr. GESELL. Can you tell us about that meeting, why it was called, who called it, what provoked it, and what was said?

Dr. HUNTER. What provoked that meeting was that the rate of interest continued to go down. We did not see what the future would be. There was an increase in the number of annuities coming to the companies, and it seemed desirable again to discuss that matter.

Mr. GESELL. Did the five companies reach an agreement at that time, or come to a consensus of opinion that it would be desirable for them to increase their annuity rates?

Dr. HUNTER. My memory was that they came to the conclusion that it was desirable to do so, but no basis was considered at that time, no understanding was come to as to what action they would recommend.

Mr. GESELL. Why was it thought desirable, as your letter states, to ask 14 other companies to join you in a conference? Why didn't you five companies go ahead and reach your decision independently?

Dr. HUNTER. Because it seemed desirable to continue the same program as nearly as possible that we had, of uniformity.

Mr. GESELL. Uniformity throughout the business?

Dr. HUNTER. For annuities.

Mr. GESELL. Do you recall there was a meeting held on March 23, 1934, attended by a considerable number of companies to discuss this matter?

Dr. HUNTER. Yes.

Mr. GESELL. Reading for a moment from a memorandum of Mr. Henderson of the Connecticut General, he states with respect to annuity rates, one of the problems discussed:¹

Dr. Hunter said there was some feeling that they should go to 3½ percent and a higher loading than we have now. They felt the higher loading necessary for fear that taxes would increase. As an alternative to the 3½-percent rates, he said we could go to a 3-percent rate with even a higher loading and make them participating. A vote was taken on 3½-percent interest 6½

¹ Entered later as "Exhibit No. 761." See appendix, p. 4835, at p. 4837.

loading, and one year down in age. Those voting "yes" were Metropolitan, Prudential, Mutual, New York Life, Equitable, Mutual Benefit, Massachusetts, Mutual, Northwestern, Travelers, Aetna.

That memorandum would indicate that by the time of the meeting on March 23, 1934, the basis for the new rates had been pretty well talked over.

Dr. HUNTER. It would.

Mr. GESELL. That the rate would then be $3\frac{1}{2}$ -percent interest, loading at $6\frac{1}{2}$ percent.

Dr. HUNTER. Yes.

Mr. GESELL. Who settled on those figures to put up to the actuaries at this meeting? Wasn't it a fact, Dr. Hunter, that that was reached and decided upon tentatively by the five principal companies in their meeting of March 8, 1934?

Dr. HUNTER. I would say that it was something to be discussed, in the opinion of the others, to be suggested to the rest of them.

Mr. GESELL. You representatives of the five companies met and came to a tentative understanding on this basis in the March 9 meeting and they then presented it for discussion at the meeting on March 23.

Dr. HUNTER. 1934.

Mr. GESELL. Yes.

Dr. HUNTER. Which the New York Life did not carry out.

Mr. GESELL. Will you answer my question, however? The five companies which met on March 8, 1934, came to a tentative agreement concerning the basis for the new rates and they presented those for discussion at the meeting of March 23, 1934?

Dr. HUNTER. Mr. Gesell, it is just a question of a difference of wording between us. I would say that these companies—these actuaries—had the opinion that these were the rates that should be adopted, and brought them before the others for discussion. I know at that time it had not been decided by these companies that they would be adopted, because we never did adopt those rates.

Mr. GESELL. But that was the tentative feeling of the five actuaries?

Dr. HUNTER. Yes; that is right.

Mr. HENDERSON. There was an agreement on that feeling by the actuaries. I think the distinction you are trying to make is that the actuaries were not authorized at that meeting to commit their companies to put them in force, isn't that what you mean?

Dr. HUNTER. That is correct.

Acting Chairman REECE. It is now about 12:15, Mr. Gesell, and I wonder what your wishes are with respect to meeting. Do you think you will be able to finish with this witness soon?

Mr. GESELL. I don't think so. We have considerable ground to cover with this witness and I think he will be on the stand most of the afternoon.

Acting Chairman REECE. What is your pleasure with recess?

Mr. GESELL. This is as good a time as any. If we might convene at 2:15, I am sure we would then have sufficient time to cover what we have to do.

Acting Chairman REECE. Mr. Borkin has a statement.

Mr. BORKIN. The committee has received an affidavit from Mr. C. B. Sawyer, president, Brush Beryllium Co., Cleveland, Ohio, concerning a situation when the matter of a beryllium patent infringement suit

was discussed. This affidavit was requested by Mr. Cox when Mr. Sawyer testified before the committee on May 9, 1939.¹ This is the statement that Mr. Sawyer presented. I am offering it for the record.

Acting Chairman REECE. It may be admitted.

(The affidavit referred to was marked "Exhibit No. 760" and appears in Hearings, Part V, appendix, p. 2301.)

Acting Chairman REECE. I have just been handed a newspaper notice, being an A. P. dispatch, with reference to beryllium prices being reduced. Reduction of 15 cents a pound on prices of roll beryllium was announced today by the Beryllium Corporation of Pennsylvania. Reduction in strip beryllium is from \$1.11 to 96 cents a pound and from \$1.29 to \$1.14, so it looks as if our hearing might be having some results.

Mr. HENDERSON. You might suggest that maybe insurance rates will be reduced. [Laughter.]

Acting Chairman REECE. The committee will stand in recess until 2:15 o'clock.

(Whereupon, at 12:15 p. m., a recess was taken until 2:15 p. m. of the same day.)

AFTERNOON SESSION

The committee resumed at 2:20 p. m. on the expiration of the recess.

Acting Chairman REECE. The committee will come to order. Are you ready to resume?

Mr. GESELL. I am. Will you take the stand, Dr. Hunter, please?

TESTIMONY OF ARTHUR HUNTER, CHIEF ACTUARY AND VICE PRESIDENT, NEW YORK LIFE INSURANCE CO., NEW YORK, N. Y.—Resumed

Mr. GESELL. I would like to offer for the record at this time the memorandum which we were discussing entitled "Synopsis of meeting held in Dr. Hunter's office March 23, 1934."

Acting Chairman REECE. The memorandum may be admitted.

(The memorandum referred to was marked "Exhibit No. 761" and is included in the appendix on p. 4835.)

Mr. GESELL. At that meeting of March 23, 1934, Dr. Hunter, there was some discussion of the possible increase in annuity rates, using the American annuitants' select table on the same basis as had been previously used, with interest at $3\frac{1}{2}$ percent, loaded $6\frac{1}{2}$ percent of gross; is that not correct?

Dr. HUNTER. That is true.

Mr. GESELL. Am I correct in saying that it was necessary to hold an additional meeting to crystallize opinion with respect to this rate increase?

Dr. HUNTER. I assume so.

Mr. GESELL. Do you recall that there was a meeting held on Thursday, April 12, 1934, at your offices, at which the following companies were represented: New York Life, Equitable, Provident Mutual,

¹ See Hearings, Part V, p. 2147.

Connecticut General, Travelers, Sun Life, Union Central, Connecticut Mutual, Massachusetts Mutual, Aetna, Equitable of Iowa, Penn Mutual, John Hancock, Metropolitan, Phoenix Mutual, United States Life, Mutual, and Prudential?

Dr. HUNTER. That is right.

Mr. GESELL. Do you recall what took place at that meeting?

Dr. HUNTER. No; I am afraid you will have to refresh my memory.

Mr. GESELL. I read you a portion of a memorandum dated April 13, 1934, from the files of the Metropolitan Life Insurance Co.¹ The memorandum states in part [reading from "Exhibit No. 773"]:

For single premium immediate annuities there was general consensus of opinion that current rates are too low. Most of the companies felt that a safer basis would be the American annuitants' select table, stepped back at present interest $3\frac{1}{2}$ percent, loaded $6\frac{1}{2}$ percent of gross. A few companies leaned toward a 3-percent interest. The New York Life, Equitable, Connecticut General, Travelers, Prudential, Metropolitan, Mutual, Massachusetts Mutual, Aetna, Union Central, Provident Mutual, thought that they probably would adopt a schedule like the above by January 1, 1935. Sun Life would adopt a similar schedule based on the Canadian table.

The John Hancock, Penn Mutual, and Connecticut Mutual were doubtful that they would change by the end of the year since they had only recently changed their present rates.

Does that refresh your recollection as to the discussion that took place at that time?

Dr. HUNTER. I believe that is correct.

Mr. GESELL. Was there a new rate increase on that basis announced, effective January 1, 1935?

Dr. HUNTER. That is—you are asking about the new rate in 1935?

Mr. GESELL. Yes.

Dr. HUNTER. Before that time, at the end of 1934, the New York Life determined that it would issue a new type of annuity, the participating annuity, and so announced in December of 1934. Soon thereafter the Equitable decided to adopt that same rate. The other companies adopted the rate on that same table you mentioned with a set-back of 1 year interest at $3\frac{1}{2}$ percent and a loading of $6\frac{1}{2}$ percent.

Mr. GESELL. Approximately how many companies adopted that rate at that time?

Dr. HUNTER. I would say about 20; it is just a guess on my part.

Mr. GESELL. Was it necessary to hold an additional meeting between the meeting of April 12, 1934, and the announcement of the new rates?

Dr. HUNTER. I don't know whether you would say it was necessary, but I think we did so.

Mr. GESELL. There was another meeting held, was there not, at your call, on the 18th of October 1934?

Dr. HUNTER. There was a meeting about that time.

Mr. GESELL. Your letter to Mr. Hutcheson, which I show you, states [reading]:

At the last meeting of the senior actuaries' club it was suggested that I ask the representatives of the principal companies to meet together to discuss a possible reduction in the rate of commissions under immediate annuities. Let's plan to meet on Thursday, the 18th instant, at the close of the afternoon session of the society.

That refreshes your recollection, does it not?

Dr. HUNTER. Yes.

¹ Subsequently entered as "Exhibit No. 773." See appendix, p. 4848.

Mr. GESELL. Now, at that meeting held on the 18th of October 1934, was there a discussion of commissions?

Dr. HUNTER. I would have to refresh my memory. I should think there was.

Mr. GESELL. May I read you a memorandum, Mr. Flynn's, dated October 31, 1934, and ask you if this correctly states what occurred? [Reading from "Exhibit No. 762":]

A meeting of actuaries of 26 representative life companies was called by Vice President Hunter, of the New York Life, following one of the sessions of the Actuarial Society, meeting in Washington recently. The purpose of the meeting was to canvass the companies as to their willingness to reduce the commissions on single-premium life annuities from $3\frac{1}{2}$ percent general agent (soliciting agent, 3 percent) to $2\frac{1}{2}$ percent general agent (soliciting agent, 2 percent). It was pointed out that in Canada and Great Britain outside commissions of 2 percent or $2\frac{1}{2}$ percent were being paid and that several American companies were now paying commissions at approximately this rate in this country. To divert agents' attention from the sale of annuities to life insurance, to provide a small additional margin in the rate, and to bring the commission for life annuities more nearly in line with the sale of other investment propositions, such as bonds, it was urged by several company actuaries that the commission rate for life annuities be reduced.

A canvass of the companies represented showed that 15 of the 26 were agreeable to an outside commission of $2\frac{1}{2}$ percent. These companies were as follows: Aetna, Equitable of New York, Imperial of Canada, John Hancock, Metropolitan, Mutual Life, Mutual Benefit, New York Life, Penn Mutual, Phoenix Mutual, Provident Mutual, Prudential, Sun Life, Canada Life, and Home Life.

Four companies were not decided but would probably follow later if practical unanimity of action were obtained—Phoenix Life, Connecticut General, Massachusetts Mutual, and Northwestern.

Three others preferred not to change now but would probably fall in line later—Connecticut Mutual, New England Mutual, and State Mutual.

Three companies expected to make no change for the present—Equitable of Iowa, National Life of Vermont, and Union Central.

Do you recall that as the nature of the discussion?

Dr. HUNTER. It was the nature of the discussion.

Mr. GESELL. Those facts are correct to the best of your recollection; are they not?

Dr. HUNTER. Yes.

Mr. GESELL. I wish to offer this memorandum for the record.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 762" and is included in the appendix on p. 4837.)

Mr. GESELL. Do you recall that subsequent to this meeting, and before the announcement of the new rates and commissions, there was still some doubt as to whether or not the program would go through and, if it did, how many companies would follow it?

Dr. HUNTER. No; I don't remember that.

Mr. GESELL. Do you recall that you had some correspondence with Mr. John M. Laird, vice president of the Connecticut General, and that he issued a questionnaire and distributed to the companies the results reflected by that questionnaire?

Dr. HUNTER. I don't remember that.

Mr. GESELL. I ask you if you recall receiving this letter from Mr. Laird, dated December 12, 1934 [reading from "Exhibit No. 763"]:

Prior to August 1933 we paid on single premium life annuities $2\frac{1}{2}$ percent to soliciting agents and 3 percent to general agents. At that time we raised

the rate to 3 percent for soliciting agents and 3½ percent for general agents in order to be in line with the prevailing rates of other companies.

We are in sympathy with the present trend toward 2 percent for soliciting agents and 2½ percent for general agents, but we have taken many negative steps during the last year or two, and on January 1, 1935, we are further reducing surrender values and increasing premiums on both insurance and annuities. We hesitate to be one of the pioneers in the commission reduction, particularly as our general level of commissions on insurance and annuities is lower than that of some of our competitors.

Naturally we are influenced by the action of such companies as the New York Life, Travelers, and Aetna, but we have understood that several of the companies of about our size are deferring action. Is it feasible for you to give us a complete list of the companies which have definitely decided to change as of January 1 or as of an early date thereafter?

And your reply to him of December 13, 1934, stating [reading from "Exhibit No. 764"]:

Your letter of the 12th instant was duly received.

I have a knowledge of what the majority of the leading companies will do with regard to commission on single-premium annuities, but have asked Mr. Larus to obtain definite information with regard to the others. He will then send a notice to all the companies which took part in the conference. I know that the Equitable, Prudential, Metropolitan, Travelers, Aetna, and New York Life have all adopted the new scale of commission. There are several others, including the Penn Mutual and Phoenix Mutual, that I understand have followed suit, but Mr. Larus will get definite information from them.

Do you recall that correspondence?

Dr. HUNTER. Yes.

Mr. GESELL. I wish to offer those letters for the record.

Acting Chairman REECE. They may be admitted.

(The letters referred to were marked "Exhibits Nos. 763 and 764" and are included in the appendix on p. 4838.)

Mr. GESELL. Who was Mr. Larus?

Dr. HUNTER. Mr. Larus was actuary for the Phoenix Mutual, of Hartford.

Mr. GESELL. And you asked him to find out from the companies first whether they were going to follow the new rate program; and if so, when; and, second, whether they were going to follow the new program for commissions?

Dr. HUNTER. Right.

Mr. GESELL. Do you recognize the second page of this memorandum I show you as the memorandum prepared by Mr. Larus summarizing the replies to that questionnaire?

Dr. HUNTER. Yes.

Mr. GESELL. That summary states [reading from "Exhibit No. 765"]:

Summarizing the questionnaire sent out last week, the following companies will have annuity rates at least as high as the new nonparticipating rates in effect in January 1935—

and the memorandum there names approximately 18 companies, and states:

The Penn Mutual and the John Hancock will probably adopt the new rates by April 1. The Equitable of Iowa and the Phoenix Mutual will adopt rates slightly more favorable, while the National Life, New England Mutual, Northwestern, and Union Central have as yet reached no decision.

The following companies have adopted the commission scale not exceeding 2 percent to the subagent with ½ percent overriding.

The memorandum then lists approximately 15 companies and says [reading]:

The Connecticut General and the Penn Mutual will probably make the change within a few months. The Northwestern will not accept business from other than their own agents. No decision has been reached by the others.

May I also ask you whether you recognize the letter of Mr. Larus to Mr. Laird, shown on the first sheet of this document, as the form of questionnaire which was sent by him to all companies?

Dr. HUNTER. It wasn't sent to us. I don't remember having seen it.

Mr. GESELL. I can state for the committee that that is the form of questionnaire from which this summary was prepared, and with that statement would like to offer it for the record.

Acting Chairman REECE. It may be admitted.

(The documents referred to were marked "Exhibit No. 765" and are included in the appendix on p. 4839.)

Mr. GESELL. You stated a moment ago, I believe, that approximately 20 companies adopted the new rates that were discussed at that time; did you not?

Dr. HUNTER. Yes; I should say so—about that number.

Mr. GESELL. When was the next rate increase announced?

Dr. HUNTER. Are you referring to all of the companies?

Mr. GESELL. The next general rate increase; yes.

Dr. HUNTER. As I have mentioned to you before, neither the Equitable nor the New York Life adopted that basis but adopted a participating annuity.

Mr. GESELL. These rates were nonparticipating rates?

Dr. HUNTER. Nonparticipating; exactly.

Mr. GESELL. And the New York Life and the Equitable changed to participating rates?

Dr. HUNTER. Participating rates; yes.

Mr. GESELL. Therefore, they did not participate in their program.

Dr. HUNTER. Yes. Now dealing just with these two companies, if I may for a moment, the New York Life left these rates the same until the 1st of July of 1938, when they then adopted a new scale which was higher than any other company. The Equitable also had a participating scale and increased their rates, but not to the same basis as we have. In the meantime, in about the beginning of 1936, a number of companies again made a change, I think that is what you refer to.

Mr. GESELL. What was that date?

Dr. HUNTER. I should say in the fall of 1935 or the beginning of 1936.

Mr. GESELL. When did the discussions leading toward the adoption of that new rate program commence?

Dr. HUNTER. I should think in the fall of 1935.

Mr. GESELL. Do you recall that the actuaries of the five largest companies met on September 24, 1935, to discuss certain problems with respect to annuities, including the advisability of combined annuity and insurance arrangements, commissions on single-premium annuities, the advisability of withdrawing single premium retirement annuities and placing a limitation on the amount of single premium annuity insurance?

Dr. HUNTER. Yes.

Mr. GESELL. Subsequent to that, there was a meeting, was there not, of the larger number of companies at your office?

Dr. HUNTER. Probably. If you have the information it is so.

Mr. GESELL. Do you recall there was a meeting at your offices on October 10, 1935?

Dr. HUNTER. I know there was a meeting about that time.

Mr. GESELL. Can you recall what discussions were had at that meeting?

Dr. HUNTER. No; not without refreshing my memory.

Mr. GESELL. May I refresh your memory with a memorandum of Mr. Laird's from the files of the Connecticut General? It refers to a meeting at your office on October 10, 1935. At that meeting you discussed many matters, including dividends, rates of interest, but with respect to annuities he states [reading from "Exhibit No. 766"]:

The New York Life has already decided to continue the dividends already estimated on about a 3½-percent interest rate but in view of the general conservative feeling in the meeting both the New York and the Equitable may change to nonparticipating 3-percent premiums or participating 2½-percent premiums. During the discussion there was such a strong tendency toward higher single premiums that it was finally decided to have each person present sound out his company on the possibility of going to nonparticipating 3-percent single premiums for straight-life annuities on January 1, 1936. After Dr. Hunter has heard from the various persons, he may call another meeting to crystallize opinion.

The following companies indicated that they would like to go along on such a change: Connecticut General, Massachusetts Mutual, Metropolitan, Travelers, Canada, Pennsylvania, Phoenix, Prudential, John Hancock, Home Provident, and Mutual Benefit.

Do you recall that discussion now?

Dr. HUNTER. There was a meeting of that kind; yes.

Mr. GESELL. And do you recall you also discussed at that time placing some limitation upon the amount of single-premium insurance and annuities which the company should take?

Dr. HUNTER. Yes.

Mr. GESELL. And that you also discussed at that time whether there should be a further reduction in commissions on single-premium insurance?

Dr. HUNTER. Yes.

Mr. GESELL. I should like to offer that memorandum for the record.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 766" and is included in the appendix on p. 4840.)

Mr. GESELL. Do you recall there was a subsequent meeting held as suggested in that recommendation for the purpose of crystalizing opinion?

Dr. HUNTER. I am not sure.

Mr. GESELL. I show you a letter over your signature dated October 17, 1935, saying [reading from "Exhibit No. 767"]:

I have been requested by several actuaries to call our next meeting before the date of the American Institute meeting as a number are going there and as there is a holiday in the following week. A meeting is accordingly called for Thursday, October 24, at 10 o'clock in my office.

A copy of the agenda is attached.

Do you recognize that as the agenda of the meeting?

Dr. HUNTER. I am sure it is.

Mr. GESELL. That is your signature on the letter, is it not?

Dr. HUNTER. Yes.

Mr. GESELL. I wish to offer this letter and the agenda for the record.

Acting Chairman REECE. It may be admitted.

(The documents referred to were marked "Exhibit No. 767" and are included in the appendix on p. 4843.)

Mr. GESELL. Can you tell us what took place at the meeting on October 24, 1935, which was called as per your suggestion?

Dr. HUNTER. I shall be glad to have you refresh my memory.

Mr. GESELL. Can you remember nothing with respect to these meetings, Dr. Hunter?

Dr. HUNTER. Keep this in mind, that our company had made its program for annuities, participating annuities, sometime in advance of this, and I was merely acting as a clearing house, collecting the information from the other companies and sending it back to them, and these things didn't stick very much in my mind. In other words, my company was not vitally interested.

Mr. GESELL. You did preside at these meetings, did you not?

Dr. HUNTER. Yes; I say I presided and acted as a clearing house.

Mr. GESELL. And you are in a general way familiar with annuity problems, whether you happened to write a particular form of annuity or not.

Dr. HUNTER. Certainly.

Mr. GESELL. Is it just that you prefer to have me read these memoranda to you, or do you have no independent recollection of what took place at all?

Dr. HUNTER. No; you have it all in writing and I might make a misstatement based on memory and I would much rather have you tell me what happened.

Mr. GESELL. I have no objection to reading the memoranda, Dr. Hunter, but I assume you would have some recollection as to what took place and I would appreciate your own opinion and views as to what took place. You are the witness on the stand. Do you recall anything about this meeting on October 24, 1935?

Dr. HUNTER. I recall that—all I remember about that was that there was a discussion as to whether the rate of interest which was then $3\frac{1}{2}$ percent was too liberal and it would be advisable to get it down to 3 percent. I think that was the only question raised at that particular time; namely, the rate of interest, lowering it from $3\frac{1}{2}$ — $3\frac{3}{4}$ to $3\frac{1}{2}$. I think that was the main thing discussed.

Mr. GESELL. From $3\frac{3}{4}$ to $3\frac{1}{2}$?

Dr. HUNTER. That is what I think it was.

Mr. GESELL. Or from $3\frac{1}{4}$ to 3 percent?

Dr. HUNTER. Wait a minute. I think you are right. It was $3\frac{1}{2}$ in 1935 and we were talking about the end of 1935 and the discussion was as to dropping it from $3\frac{1}{2}$ percent to 3 percent.

Mr. GESELL. I would like to read you a memorandum of Mr. Laird's dated October 25, 1935,¹ from the files of the Connecticut General,

¹ Subsequently introduced as "Exhibit No. 768." See appendix, p. 4844.

which I think is in some more detail and ask you whether this correctly states what happened at the meeting as your recollection is refreshed [reading from "Exhibit No. 768"]:

Dr. Hunter reported that apparently some companies wanted to go to $3\frac{1}{4}$ percent but others to 3 percent. He suggested that on annuities now being purchased, there might be less selection against the companies and therefore a higher mortality. Mr. Bourke of the Sun Life, however, said that about 3 years ago in Great Britain when the Government refunded its obligations at a lower interest rate the Sun's annuity business increased by about 300 percent and that while their experience is not yet extensive, the mortality on this business has so far been extremely light, namely, 70-75 percent of the American Annuity's' Select Table.

The memorandum, skipping a bit, says:

The first informal ballot was overwhelmingly in favor of 3 percent with the same loading and mortality assumptions as have hitherto been used with $3\frac{1}{2}$ percent. Several companies, however, felt that they could not go along on this program unless the New York Life and Equitable of New York would also go on this nonpar basis or make a radical change in their participating annuities.

Apparently Hunter and Henderson were expecting a nonpar $3\frac{1}{4}$ percent rate to be adopted, and this would have enabled them to continue their 3 percent participating premiums. They were distinctly surprised at the landslide in favor of 3 percent nonpar but indicated that either the companies would be forced to abandon the participating idea and adopt the new uniform nonpar rate or possibly go participating with $2\frac{1}{2}$ percent interest assumption. On direct question, Henderson said the Equitable wouldn't continue to project the dividends on a 3.9 basis, but did not indicate what they would do.

The following companies will adopt the new 3-percent program on January 1 or sooner: Aetna, Connecticut General, Connecticut Mutual, Home, Guardian, Massachusetts Mutual, Metropolitan, Mutual Benefit, Mutual Life, Penn, Prudential, and Travelers.

The following will come along just as soon as they get definite assurance from the New York Life and Equitable: John Hancock, Phoenix, and Provident.

The following will probably be the last to move: Equitable of Iowa, New England, National of Vermont.

Now does that refresh your recollection somewhat as to what took place at that meeting?

Dr. HUNTER. Yes.

Mr. GESELL. Now, having had your recollection refreshed, will you tell us what these discussions were back and forth between your company and the Equitable on the one side and the nonparticipating annuity companies on the other, and why it was that your participating rates and the nonparticipating rates had so many common problems?

Dr. HUNTER. As I mentioned, we adopted a participating rate in December of 1934. There was this discussion in the fall of 1935 and at the beginning of 1936. Some of these nonparticipating companies seemed to think that there wouldn't be a proper differential between the participating and nonparticipating.

Mr. GESELL. What difference did that make, Dr. Hunter?

Dr. HUNTER. I don't know; they thought that they couldn't get business unless we raised our rates, which we did not do; we stood pat on that.

Mr. GESELL. You mean they were attempting to get your companies to change your participating annuity rate basis in order to make it more comparable with the proposed nonparticipating rate increase?

Dr. HUNTER. I suppose that was so; yes.

Mr. GESELL. That was so, wasn't it?

Dr. HUNTER. I would say "Yes."

Mr. GESELL. Do you recall any of the other discussions at that meeting?

Dr. HUNTER. No.

Mr. GESELL. Do you recall the cash refund annuities were considered and installment annuities were considered?

Dr. HUNTER. I know they had been considered at meetings, but I could not attach it to that particular meeting.

Mr. GESELL. Well now, were there any further meetings prior to the adoption of the new rate increase, do you recall?

Dr. HUNTER. No; I don't recall.

Mr. GESELL. Do you recall this memorandum which I show you as an announcement which you sent out sometime in the fall of 1935, stating what the attitude of the companies would be?

Dr. HUNTER. Yes; I was used as a clearing house for the companies.

Mr. GESELL. This memorandum from the clearing house states [reading from "Exhibit No. 768"]:

The following companies intend to put into effect at the beginning of next year or earlier new immediate annuity rates, nonparticipating, on the basis of the American Annuitant's Select Table (male) with 3-percent interest, stepped back one age for men and five ages for women: Metropolitan, Mutual, Travelers, Aetna, Connecticut General, Massachusetts Mutual, Connecticut Mutual, Canada Life (or a higher basis), Mutual Benefit (a higher basis). The following will adopt with reservations: New England Mutual, if there is any general trend in that direction. Sun Life, anxious to adopt if 10 companies of importance in the annuity field are willing to do so. Home Life would follow if one-half of the companies in the little entente did so. Guardian Life will probably follow the action of the majority of other companies. Provident Mutual are sympathetic and would like to adopt the new basis if a substantial number of companies do so. Prudential are waiting to know more definitely which companies will make the change indicated. Phoenix Mutual depends on the action of the other companies, including the two participating companies.

The John Hancock and National Life are not yet prepared to go along with the others, and the Penn Mutual has not come to any decision.

Please let me know if there is anything further that I can do to further a cooperative movement for the good of life insurance.

May I offer these documents for the record?

Acting Chairman REECE. They may be admitted.

(The documents referred to were marked "Exhibit No. 768" and are included in the appendix on p. 4844.)

Mr. GESELL. Now, that memorandum indicates to me, Dr. Hunter, that one of the basic considerations in this new rate increase was the uniformity of the decision which was to be reached, that the companies, many of them, were unwilling to take any position with respect to the new rates unless they knew that the other companies were going to be in accord with their program. Is that correct?

Dr. HUNTER. That is correct.

Mr. GESELL. Have you any explanation to offer as to why these companies had that as one of the considerations in indicating whether or not they would agree to the new rate program?

Dr. HUNTER. I wonder, Mr. Gesell, if that is really a fair question to ask me, to interpret the minds of these other people. I might—I don't know what they meant when they put that in.

Mr. GESELL. You were present at many of the conferences?

Mr. HENDERSON. Mr. Gesell, maybe you could, without asking Dr. Hunter to interpret, ask him to try to recollect what the nature of their discussions was in these meetings. That would be some indication of what was on their minds, without trying to make a mind reader of Dr. Hunter. Perhaps he could recall some of the conversations which took place which would indicate their position.

Dr. HUNTER. Well, there was a general feeling among companies of the same class that they would like to go along with them when they made the change; I think that is understandable.

Mr. HENDERSON. You see, Dr. Hunter, I served at N. R. A. and I would agree with you that it is understandable. Is that all that you can recall?

Dr. HUNTER. That is all in a general way.

Mr. HENDERSON. Was the discussion very vigorous back and forth between the companies on this matter?

Dr. HUNTER. Oh, very little in our meetings.

Mr. HENDERSON. Was there anything which might be characterized as "missionary" work going on?

Dr. HUNTER. Not at all.

Mr. HENDERSON. That is, attempts to persuade other companies?

Dr. HUNTER. Not at all in these meetings.

Mr. HENDERSON. Do you know of anything which went on outside of the meetings?

Dr. HUNTER. Not so far as I had anything to do with.

Mr. HENDERSON. Not to your personal knowledge?

Dr. HUNTER. Not to my personal knowledge.

Mr. GESELL. You subsequently notified the member companies from time to time that other companies had decided to adopt this program, did you not?

Dr. HUNTER. Yes.

Mr. GESELL. You recognize these three memoranda which I hand you as announcements indicating that additional companies had decided to follow the program?

Dr. HUNTER. Yes.

Mr. GESELL. I should like to offer these memoranda of Dr. Hunter's dated November 21, 1935, November 25, 1935, and December 2, 1935, for the record.

(The memoranda referred to were marked "Exhibits Nos. 769, 770, and 771" and are included in the appendix on p. 4847.)

Mr. LUBIN. May I ask who they are addressed to?

Mr. GESELL. Those memoranda are three memoranda which were sent by you to all of the conference companies were they not?

Dr. HUNTER. To all of them.

Mr. LUBIN. Dr. Hunter, I wonder if you could tell us why you felt it incumbent upon you to send them such notification?

Dr. HUNTER. Well, I was the chairman of that committee and I felt that the other companies should have the benefit of the information of all. I was requested by these companies at the meeting to let the others know what decision had been reached.

Mr. GESELL. It was rather important, was it not, Dr. Hunter, to advise the other companies when additional companies entered in because by doing so your chances for a broader, uniform program were increased?

Dr. HUNTER. Yes.

Mr. GESELL. I notice a reference in one of those memoranda to the "little entente."¹ Can you tell us what the "little entente" is?

Mr. HUNTER. It is a group of companies—I don't know, 12 or 13—I don't belong to it and haven't attended any of their meetings; someone else could probably give you better information. I could tell you some of the names, if that is what you wish.

Mr. GESELL. Will you tell us what you know about the organization?

Dr. HUNTER. I don't know anything about the organization.

Mr. GESELL. It is a group of New England companies, is it not?

Dr. HUNTER. Yes; two Philadelphia companies and one Newark company are connected with it.

Mr. GESELL. And I take it when that company said it would go along if the majority of the little entente companies did, it meant it would go along if the majority of companies in its particular class went along.

Dr. HUNTER. Yes.

Mr. HENDERSON. I notice on the last page of this memorandum of Mr. Laird's about the meeting in your office of October 24, he says concerning restrictions on settlement options [reading from "Exhibit No. 768"]:

A small committee of actuaries and lawyers will get together in New York to see what restrictions, if any, can be agreed upon.

That is the first reference I have seen in those memos to lawyers being present. Were lawyers present when these other negotiations took place?

Dr. HUNTER. Not at all.

Mr. HENDERSON. Well, can you give me an idea of why lawyers were going to be called in on these settlement options?

Dr. HUNTER. I should be very glad to. I understood Mr. Gesell would take up that subject with me later, but I will be very glad to take it up now.

Mr. GESELL. We do intend to have a separate hearing on settlement option agreements among the companies, Mr. Henderson. The answer is, as will be developed, that there were many legal matters involved in wording types of settlement options, and legal advice was necessary, since the provisions were in the nature of trust agreements in many cases and care had to be taken because of the complexity of the State laws.

Mr. HENDERSON. The only point I wanted to get to was whether in these other negotiations lawyers were present also?

Dr. HUNTER. They were not; only when it came to a legal matter.

Mr. GESELL. Now, Dr. Hunter, when was the next rate increase announced?

Dr. HUNTER. In the fall of 1938.

Mr. GESELL. Do you recall when the first meetings directed toward establishing this new rate increase were held?

Dr. HUNTER. I would like to correct that; it was the spring of 1938 when these meetings were held.

Mr. GESELL. Do you recall when the first meetings were held that resulted in that rate increase in the spring of 1938?

Dr. HUNTER. No; I do not.

¹ See "Exhibit No. 768," appendix, p. 4844, at p. 4846.

Mr. GESELL. Do you recall any of the circumstances which led up to that rate increase?

Dr. HUNTER. I think the circumstances which led up to that rate increase among these other companies were that they felt that the mortality was improving among annuitants, as shown by recent experience, and that was the principal reason for the companies, or the actuaries, wishing to discuss the matter together.

Mr. GESELL. When did the discussions first start with respect to that problem? Was it not as early as June 9, 1936?

Dr. HUNTER. Will you permit me to state that this matter went back to conversations with the superintendent of insurance in 1937, which eventually—and then in January of 1938 at least one company came out with options in its policies at the death of the insured which provided for an annuity, and started possibly as far back as 1936. But when I have attended so many meetings such as these it is just impossible for me to remember all that went on and what discussions took place.

Mr. GESELL. I show you a memorandum dated June 9, 1936, and ask you if that does not refresh your recollection that the discussions first started among the five principal companies at a meeting held on June 9, 1936.

Dr. HUNTER. Yes.

Mr. GESELL. I wish to offer this letter and the agenda for the meeting for the record.

Acting Chairman REECE. They may be admitted.

(The documents referred to were marked "Exhibit No. 772" and are included in the appendix on p. 4848.)

Mr. GESELL. Did you conduct the meetings and discussions and preside at the discussions which took place leading up to this change in the spring of 1938, or was that handled by Mr. Bassford, of the Metropolitan?

Dr. HUNTER. I think that I stopped attending any meetings early in 1937 and that from that time on Mr. Bassford took up the matters in connection with the subjects we are discussing.

Mr. GESELL. Then may I ask you to step down from the stand for a moment, and I will call Mr. Bassford.

Dr. HUNTER. May I say that I am not sure of that, Mr. Gesell?

Mr. GESELL. I think you are correct.

Acting Chairman REECE. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BASSFORD. I do.

TESTIMONY OF H. R. BASSFORD, ACTUARY, METROPOLITAN LIFE INSURANCE CO., NEW YORK, N. Y.

Mr. BASSFORD. Before starting the discussion I want to state that I was not in charge of these meetings at this time. I wasn't in charge of any meetings at any time.

Mr. GESELL. I think we will develop what the facts were as we go along.

Mr. Bassford, will you state your full name for the record?

Mr. BASSFORD. H. R. Bassford.

Mr. GESELL. You are actuary for the Metropolitan?

Mr. BASSFORD. That's right.

Mr. GESELL. Some reference was made during Dr. Hunter's testimony¹ to a memorandum from the files of your company, dated April 13, 1934, and I will ask you to identify that memorandum.

Mr. BASSFORD. Yes.

Mr. GESELL. I should like now to offer this memorandum for the record. It already has been referred to.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 773," and is included in the appendix on p. 4848.)

Mr. GESELL. Did you have occasion, in 1938, Mr. Bassford, to send out a questionnaire to certain of the principal companies asking them what their attitude would be regarding the adoption of a new annuity rate base in 1938?

Mr. BASSFORD. I did.

Mr. GESELL. Will you explain the circumstances under which that happened?

Mr. BASSFORD. Yes; I will be glad to.

This questionnaire is only part of the general study of annuities the various companies made in '37 and early '38.

Let me say, first, that Metropolitan writes only a very small amount of annuity business. While it is a large company in the life-insurance field, there are at least 16 companies which do more annuity business than the Metropolitan does. The reason for that is rather obvious, that it requires a substantial amount of money to buy an annuity. Since we deal with people who are not wealthy, not many annuities come to our company. It is, therefore, absolutely impossible for us to get any rate basis for annuities based on experience of the Metropolitan. It is also true of most, practically every company, because the annuity experience has not been developed very materially. This is evidenced by the fact that many times the insurance department, not only of New York but of other States, has taken a great interest in the development of annuity experience. In fact, on one or two occasions, at least two occasions, it has definitely asked the companies to get together and pool their experience and try to form a proper basis for rates and reserves.

Mr. HENDERSON. Is that to form a unified basis?

Mr. BASSFORD. In the annuity business there are two very important factors, the mortality rate and the interest rate. The expenses are extremely small. In our company the expenses are only a little over 1 percent of the premium in the home office.

Mr. HENDERSON. My question is on the matter of what the insurance department's suggestion was. Did they suggest that you get together and agree on a uniform rate base?

Mr. BASSFORD. They asked us to get together and get a proper rate for annuities, rates and reserves for annuities. I was about to explain that if you get the reserve on—these are single premium immediate annuities—if you get the basis for the reserve, if you are doing business in New York State, you practically have the basis for the rate. The New York law, section 97, has a very definite limit on the amount of expenses—a definite allowance on the amount of expenses which may be incurred on the annuity business. In the present law it is only

¹ Supra, p. 4531.

4 percent and with the home office expenses running from 1 to 1½ percent, there can't be much difference between the rates of the various companies, and therefore it is almost bound that the annuity rates will be fairly uniform.

Mr. HENDERSON. Mr. Bassford, will you let me finish my question?

Mr. BASSFORD. I thought you had; I beg your pardon.

Mr. HENDERSON. I tried to break in without any success.

Mr. BASSFORD. I thought I was answering your question, sir.

Mr. HENDERSON. The question was not whether the items which go to make up the rate tend toward uniformity. The question that I asked was whether in the suggestions which you say the insurance department made to you for getting together, they suggested that you agree on uniform rates for all companies. Now, that was my question.

Mr. BASSFORD. Well, they didn't ask us to do that and we didn't do that.

Mr. HENDERSON. That would have been the answer.

Mr. BASSFORD. All right; I am sorry.

In that connection, may I say something? The New York Insurance Report for 1936 has this to say:

Insurance companies, however, are peculiarly susceptible to the evil effects of unrestricted price cutting and the public is fully as much interested in preventing inadequate rates as it is in prohibiting excessive rates. Therefore, to be fully effective, insurance supervision must have jurisdiction over rates which in practice means substantial standardization of rates. Many states have come to adopt this point of view, although few have gone as far as New York in following out the logical implications of the principle of regulating rates.

That was a general statement in his report. I must say that further on he did say that for life insurance—I must paraphrase it—he said that that did not apply as much to life insurance as it did to other forms of insurance. The reason he gave was that life insurance in most cases was issued on a mutual basis. Therefore, that statement about life insurance would not apply to annuity rates because most companies now write annuities on a nonparticipating basis. The law specifically provides that the companies may do that, and most companies do that. So that the statement made did apply very clearly to annuities; although it was known, there was no special statement that did.

Mr. HENDERSON. There are two items in that connection. First of all, this idea that several cost elements are put into some sort of adding machine and that, no matter which company's cost figures are used, the result is practically uniform. The testimony adduced here on various occasions, and particularly the memorandum by Mr. Flynn,¹ suggests that there is quite a difference in those elements and that uniformity does not necessarily follow.

The second observation I want to make applies to the previous witness also. It is very evident, as indicated by your voluntary testimony and the nature of your introductory statement, that these activities may be questionable. Consequently, you are building up a defense mechanism and sometimes your answers are not directly related to the specific questions asked.

Now it ought to be evident to you, as it certainly is to those of us who sit at this table, that this is not a trial or an adjudication of laws

¹ See "Exhibit No. 756," appendix, p. 4831.

on agreements which may have been violated. As Senator O'Mahoney has pointed out several times, what we are interested in are the facts. We are interested in knowing what took place.

Beginning in 1933 a few companies decided that the annuity business required an increase in rates. Later, many companies from different States, with a wide variety of individual problems and with considerable differences in mortality experiences, assumed interest rates, and expenses of doing business, sat down together and, after considerable negotiation, came to an agreement. Certain companies not represented at the meeting promised to go along with the majority for the sake of a unified program.

There was a give and take in order to achieve the standardization which a number of competent observers believed necessary. Some of the actuaries and managers of various associations, I gather, considered it inevitable that certain conditions of competition would lead to uniform rates.

The evidence adduced, of course, shows that though some State officials thought perhaps the rates were too low and at times suggested meetings to consider them, no regulatory officer ever attended the meetings. Without any maliciousness on any one's part, the presiding officer at times destroyed the record of the discussions and of the decisions reached at these meetings. This afternoon the presiding officer of one of these meetings could not tell the nature of the discussions which took place without constantly refreshing his memory with memoranda.

Another item evident from testimony is that the actuaries, in reaching these agreements on annuity rates, were subjected to competitive pressure and influenced to some extent by the agency forces of their respective companies.

All of this leads to a defense mechanism which is not conducive to eliciting information.

I am sure, Mr. Bassford, from my experience that the persons who came to this general agreement honestly believed that, in order to get rid of destructive competition and to avoid positive harm to policyholders and their interests, they had to find some means, official or unofficial, of getting these understandings.

I think it would serve our purposes best if the witnesses would tell us frankly what we want to know, in as calm a way as possible, and avoid the kind of answers which give the impression that this committee is conducting a trial on the question whether competition has been eliminated illegally. No one would dispute, after the evidence adduced here today, that competition in the form in which it was taking place prior to 1933 no longer exists. Even the commissions which the solicitors take are now subject to control.

Mr. BASSFORD. Have you finished, sir?

Mr. HENDERSON. Yes, sir.

Mr. BASSFORD. I am very sorry that I am not able to tell you where I disagree with the many statements that you have made, but there are many of them that are not in accordance with my recollection of what happened, or the basis of what we have done. Let me say that we are certainly not ashamed of anything we have done.

Mr. HENDERSON. That is what I am asking for.

Mr. BASSFORD. Let me tell you that this business represents one-fiftieth of 1 percent of the contracts issued by our company, and let

me tell you that it is a problem child. Under annuities a reducing rate of mortality increases the cost, a reducing rate of interest increases the cost. Both of those phenomena have been taking place in the last 6 years. Particularly there has been a very substantial and steady decrease in interest rates—that is, interest on investments—and it has made a very serious problem for all of the companies. That particular item not only increases the cost of annuities, it also increases the cost of all insurance, and people that pay interest realize it; people that receive interest don't realize it, but the people in our company are paying more for their insurance because of it.

Because we have such a problem as brought out by the figures given by Mr. Gesell, we, of course, want to get every bit of information that we can in order to get proper rates. We want adequate rates but we don't want excessive rates. We want fair rates.

Mr. HENDERSON. Do you want uniform rates?

Mr. BASSFORD. I don't care whether they are uniform or not, as long as they are adequate and fair.

Mr. HENDERSON. Does your company want uniform rates?

Mr. BASSFORD. I don't think they do.

Mr. HENDERSON. In these discussions which began in March of 1933 and continued to 1938, the Metropolitan participated in every one of those, did it not?

Mr. BASSFORD. It did.

Mr. HENDERSON. Do you want me to understand that in all those discussions, concerning which we have a tremendous amount of testimony, it was a matter of indifference to the Metropolitan whether the rest of the companies came to a general understanding?

Mr. BASSFORD. I wouldn't say that. What we were trying to get was the most authoritative information.

Mr. HENDERSON. That doesn't follow from the nature of the testimony, Mr. Bassford.

Mr. BASSFORD. You haven't heard my testimony yet.

Mr. HENDERSON. I mean from the testimony that has been taken here about meetings in which the Metropolitan was represented. Certainly the Metropolitan in what it was doing wanted—

Mr. BASSFORD (interposing). I think, if you look through the records of the meetings, you will find that practically every time the Metropolitan was one of the first to suggest and adopt a more adequate basis of rates, and I don't think of any case where we did it on the proviso that somebody else would do it. So I think that answers your question.

Mr. HENDERSON. That is what I am trying to get at, whether you want us to understand that the Metropolitan did not have this driving desire that was very evident in the memoranda we have, suggesting that "We will go along if the majority does," or "We will not do this unless X company does that; we will not do it as long as the nonparticipating rate is different from the participating rate; we will not do this as long as the stock companies are doing this." I am trying to get from you the Metropolitan's attitude.

Mr. BASSFORD. That is all I can tell you, of course.

Mr. HENDERSON. And I am to gather that in this general drive toward getting uniformity, which is something different, I think you will agree, from getting adequate information, the Metropolitan was

not a strong participant, that what it wanted was more information so that it could handle its own problem child.

Mr. BASSFORD. Let me say that frequently there were quite lengthy discussions as to the proper mortality table. In fact, the reason I think that Mr. Gesell thought I was in charge of some of the meetings was that I happened to be appointed chairman of a committee which got up a report early in 1938 dealing with the question of the proper mortality table that we ought to use. That memorandum that he has introduced is part of that report that I made early in 1938.

Mr. HENDERSON. I think, Mr. Gesell and Mr. Bassford, my comments were adduced by reason of this defensive attitude which I felt.

Mr. BASSFORD. It wasn't intended that way, sir.

Mr. HENDERSON. I think we will get further along if you are responsive to the questions, and then any additional comment which illuminates what your position was would be very welcome. You have been here during this testimony, you know we have never shut a witness off, and we have not tried to trap witnesses, have we?

Mr. BASSFORD. I know you haven't, sir.

Mr. HENDERSON. I don't believe any members of the committee or the examiners have tried to trap witnesses. We want no responses here that do not flow from what the witness honestly believes. They wouldn't serve any purpose. We are not engaged in a propaganda campaign, and we haven't a deep-seated motive of trying to lead either the witnesses or the insurance companies.

Mr. BASSFORD. I don't know whether it is clear to you, Mr. Henderson and the other members of the committee, but the question that you are dealing with, and we were dealing with at these meetings, particularly the one Mr. Gesell is talking about now, was just a single contract, it was a single-premium immediate annuity. There were one or two forms in which that was issued, and it required in our company on the average \$5,500 to buy one of those contracts, and we wouldn't accept less than about \$1,000. So that was our reason for needing to participate with other companies on this mortality question, and I believe that was the reason of the superintendent's interest, because no one company could have got the information itself.

Mr. HENDERSON. Let me ask you this, and you can kiss this off if you want to.

Mr. BASSFORD. I will answer it if I can, of course.

Mr. HENDERSON. The record that has been adduced today shows something more than just a scientific interest in actuarial rates was evident at these conferences, that they went beyond the question of mortality rates and the like toward getting together on rates. That was admitted by the witness. Do you think that is an improper question? If Mr. O'Brian thinks it is an improper question, we will skip it.

Mr. O'BRIAN.¹ Even if it were, I would want you to ask it. We are prepared to answer any questions, I am sure, that we can answer.

Mr. HENDERSON. All the actuaries were not interested in getting information. They wanted to go beyond that and get some uniformity.

¹ John Lord O'Brian, counsel, Metropolitan Life Insurance Co.

Mr. BASSFORD. Of course there again, Mr. Henderson, I can speak for the Metropolitan only.

Mr. HENDERSON. I am not asking you to speak for the Metropolitan only.

Mr. BASSFORD. I don't know what was in the minds of the other people, except as you have brought it out here.

Mr. HENDERSON. It was in the minds, evidently got translated into action, and has been discussed very frankly here.

Mr. BASSFORD. Wouldn't it be better for you to ask them, rather than to ask me? I can only tell you what our interest is.

Mr. HENDERSON. I will accept that as being your answer. Let's go on.

Mr. BASSFORD. Mr. Henderson, I am willing to say that of course all of the information that you have brought out most of which I heard, and I do know that you are probably right, but I feel that I ought to speak only for the Metropolitan. Mr. O'Brian says it is all right.

Mr. O'BRIAN. I want you to answer all the questions.

Mr. HENDERSON. I think that is good advice.

Mr. O'BRIAN. If I might interpolate, I think some of the confusion, if I may so characterize it, results from the fact that it hasn't been clearly brought out what it was that the department of insurance wanted and why it intervened, and what it asked these companies to do. I think if we could get started there, as a starting point, we could develop it. I think that is what Mr. Bassford has in his mind, although I haven't consulted with him.

Mr. GESELL. Might I at least interject a word and say that I haven't got an answer to my first question, that I am not going to ask the questions Mr. Bassford thinks I am, and that I think we can move pretty fast if I can have about 15 minutes?

Now, Mr. Bassford, I show you a report dated March 4, 1938, signed by yourself as chairman, subcommittee.¹ Do you recognize that as part of the report which you rendered on that date?

Mr. BASSFORD. Yes, sir.

Mr. GESELL. That report states [reading from "Exhibit No. 774"]:

For your information we have prepared the enclosed summary of the replies received to the subcommittee's questionnaire in regard to the adoption of new annuity and settlement option rates based on the 1938 Standard Annuity Table. Please bear in mind that this information is highly confidential and advise the undersigned if we have not properly stated your attitude toward the adoption of new rates.

While some requests have been made for an early meeting, the general feeling inclines toward deferring the conference until the situation with regard to the New York code and other legislation affecting policy forms is more definitely known. Dr. Hunter will accordingly advise you as to the most suitable time for a meeting which will probably be some time in April, with a view of reaching a definite recommendation by the time of the Actuarial Society's meeting.

Now, attached to that document is a summary of replies to the subcommittee's questionnaire. You sign yourself on this document as chairman of the subcommittee.

Mr. BASSFORD. That's right.

Mr. GESELL. Will you tell us who appointed the subcommittee?

Mr. BASSFORD. Yes, sir.

¹ Subsequently entered as "Exhibit No. 774," see appendix, p. 4850.

In order to explain that, I have to go back to some time in '37. There was another committee appointed following the publication of information on mortality on settlement options. One of the settlement options is a life-income option, which is a form of annuity. They developed a report and published a table based upon the experience that had been presented, and because that experience didn't give them enough information they had to develop experience from certain other lines, certain other bases of mortality, but they prepared this table.

The last part of that report I would like to read, which gives you the reason that I happened to serve as chairman of this other committee—I mean, why the other committee was appointed.

Well, I can explain it; I remember just what it did say, or just about what it did say. When they worked out the table it showed that the rates on a net basis, that is, settlement option rates include no loading for expenses because they are given, and at maturity of a policy no commission is paid, and they are issued on what we call a net basis; that is, on the basis of mortality and interest without loading. In this report the annuity rates adduced from that table indicated rates higher than the rates companies were charging for individual annuities, so in the last part of the report they suggested that a new committee be appointed in order to study that table, and then the other table, and suggest a basis for annuities, individual annuities, on the latest information available, and I was appointed chairman of that committee.

Mr. O'BRIAN. By whom?

Mr. BASSFORD. I don't know. I think it was appointed by this informal conference. I am not sure whether that was it or whether I was appointed by Dr. Hunter, who was chairman of the mortality committee of the Actuarial Society, but I made my report, which you have and which you have just shown me, and along with that report, in that report—this is a report which I sent out with my letter of February 9, 1938—I believe Mr. Gesell has it—there were several questions.

I want to make just a few quotations from this to indicate the reason I sent out the questionnaire:

To the extent to which the actual experience may be considered to reflect an underlying trend in annuitant mortality during the 20 years following the American Annuitants investigation, the proposed table may also be considered as providing some margin for future improvement in mortality.

Then again, toward the end of it—

The effect of these additional assumptions—
that is, the assumption of select mortality—

as to selection would be to increase the net annuity rates by about 1 percent for males and 1.5 percent for females. If it is felt that this additional element of safety should be introduced into annuity rates, it is suggested that the provision for select mortality could be made in the loading, retaining the 1938 Standard Annuity Table—

the table they produced—

for net annuity values.

While this subcommittee is further of the opinion that no special provision need be made in the loading for a mortality margin other than that furnished by the proposed table, companies may wish to give this matter individual consideration.

This report was made by a committee of some six, I think, actuaries; it was sent out to the people who had contributed to it, and along with this report we sent a questionnaire which was in the nature of as I recall it, a Gallup poll, to try to find out what they thought of our report, and this memorandum which Mr. Gesell is just asking me about is the reply that was made by the companies in answer to the questions which I asked them, and these answers were made without any meeting. It was just a question of, "What do you think of our report and what are you going to do about it?"

Mr. GESELL. Yes. You asked them to state, first of all, whether they would follow the new proposed rate; and, second, to comment on the date when they would adopt that rate, did you not?

Mr. BASSFORD. There was no proposed rate, Mr. Gesell. The report does not include a single item about a proposed rate. The report merely is a mortality study. I think you will find nothing in it—

Mr. GESELL (interposing). Have you a copy of the questionnaire which you sent out?

Mr. BASSFORD. Yes; the questionnaire asks what rates you are going to adopt, but there had been no rates proposed in the report, or by me or anybody else, at that time.

Mr. GESELL. Your report simply asks them to state what rate they would adopt on the basis of the mortality report which you made to them?

Mr. BASSFORD. That is correct.

Mr. GESELL. And also the date when they would adopt that new rate?

Mr. BASSFORD. That's right. This also includes a questionnaire for life income settlements. The first one is the life income settlements.

Mr. GESELL. Then, in reporting your replies in the memorandum which you have identified, you state in paragraph one that [reading from "Exhibit No. 774"]:

Fourteen companies appear to be willing to adopt new individual annuity rates as of July 1, 1938, or sooner provided a large number of companies do so. While most of these companies have not decided upon the basis of their new rates, it appears as if the 1938 Standard Annuity Table at 3 percent and a loading of 6½ percent of the gross would generally be acceptable for non-participating immediate annuity rates.

And in the case of many of the companies listed under that item 1, the companies indicated that they would adopt the rate on the same date as the other companies.

Mr. BASSFORD. That proviso, you notice, applied merely to the date of adoption and not to the rates.

Mr. GESELL. You mean that they would adopt the rate stated in the last column at the same time other companies announced rate changes, even though those rates were not in harmony?

Mr. BASSFORD. That is right.

Mr. GESELL. I wish to offer this memorandum and report for the record.

Acting Chairman REECE. They may be admitted.

(The documents referred to were marked "Exhibit No. 774" and are included in the appendix on p. 4850.)

Mr. GESELL. Now, subsequent to receiving the replies from that questionnaire, was there a meeting of the actuaries held to discuss what was shown?

Mr. BASSFORD. I believe so.

Mr. GESELL. Do you recall the date of that meeting?

Mr. BASSFORD. No, I don't offhand; I think it was in May.

Mr. GESELL. I show you a memorandum dated April 22, 1938, report of meeting held April 22, 1938. Is that a memorandum which you prepared summarizing what happened at that meeting?

Mr. BASSFORD. That is a memorandum prepared from my notes, summarizing what I thought happened. In most cases I think it is correct.

Mr. GESELL. There were 25 companies present at that meeting, were there not?

Mr. BASSFORD. I can't tell.

Mr. GESELL. The first line—

Mr. BASSFORD. Oh, it does say.

Mr. GESELL. I notice on page 3, under nonparticipating companies, the statement [reading from "Exhibit No. 775"]:

There was some discussion as to whether or not the rates in the committee report; that is, 1938 Standard Table 3 percent with 6.5 percent loading, was satisfactory. All companies stated that their companies would adopt rates at least as severe as that basis. The Connecticut Mutual said they would adopt them for life annuities but that the age should be set forward 1 year for annuities with guaranteed minimum return. There was about an equal division between those wanting to use set-back in mortality rate and those wishing to increase the loading. The companies are to report to Mr. Hunter as to what their preference is after giving the matter further consideration. The following companies strongly favored a more severe basis than that proposed: New England, Sun Life, Travelers, State Mutual, Massachusetts Mutual, Home Life, Mutual Benefit, Phoenix Mutual.

In view of the fact that it is very probable that most companies will adopt the 1938 Standard Table for Life Income Options without set-back it seems a little inconsistent to set back the table for Immediate Annuities.

I wish to offer this memorandum for the record.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 775" and is included in the appendix on p. 4852.)

Mr. GESELL. Was there a subsequent meeting held, Mr. Bassford?

Mr. BASSFORD. I can't tell you.

Mr. GESELL. I show you a letter dated May 12, 1938, addressed to yourself, signed by Mr. Hunter, stating:

It has been suggested that a meeting be held to consider further the bases for annuities and for the proceeds of policies on Wednesday, the 18th instant, 8 p. m., at the Waldorf Astoria. Mr. MacClean will engage a room for us.

Do you recall that?

Mr. BASSFORD. It must have been the time of the actuarial meeting.

Mr. GESELL. There were then further discussions at the time of the actuarial meeting?

Mr. BASSFORD. Apparently.

Mr. GESELL. Would you recall them, Mr. Bassford?

Mr. BASSFORD. I don't think that the question of single premium annuities was taken up at that time. I think—I am pretty sure at least the Metropolitan had already decided on other rates, because we put them in effect by July 8. I am not sure, Mr. Gesell; I can't

remember. Apparently there must have been a meeting and I don't think that the question of single premium annuities was discussed at that meeting.

Mr. GESELL. Do you recall this letter that I now show you, dated May 26, 1938, which came from the files of your company, from Dr. Arthur Hunter?

Mr. BASSFORD. Oh, yes; I remember that. I don't think that had any connection with the meeting, Mr. Gesell. It was just a question—

Mr. GESELL. Then, did Dr.——

Mr. BASSFORD. Oh, wait a minute; I am sorry; yes, this is correct.

Mr. GESELL. All I want to get at, Mr. Bassford, is this, Who took up the responsibility of acting as the clearing house after you had first sent out this questionnaire? Did that then go back to Dr. Hunter to handle from then on?

Mr. BASSFORD. Apparently it did, as this letter tells him what the Metropolitan decided to do, so I assume he was the clearing house.

Mr. GESELL. He wrote on May 26, 1938, did he not?

I have been requested by several companies to obtain final information with regard to the basis for nonparticipating immediate annuities on and after the 1st of July. At our last meeting all companies, with two exceptions, which issue such annuities agreed to the new standard annuity table stepped back 1 year for men and 6 for women, with 3-percent interest and a loading of $6\frac{1}{2}$ percent. One of these has agreed to go along with the others if there are no defections.

May I ask you to answer this question by return mail.

If you have also decided to use the foregoing table without loading for settlement options with life contingencies, retirement annuities, annuity endowment, retirement endowments, kindly let me know.

He wrote that letter, then, to all of the companies, I take it, and then reported to you by the attached questionnaire, did he not, a summary of the replies he received?

Mr. BASSFORD. I guess it was.

Mr. GESELL. Do you recognize that as a document from the files of your company?

Mr. BASSFORD. It looks like it.

Mr. GESELL. This letter signed by Dr. Hunter, dated June 3, 1938, marked "Confidential," states [reading from "Exhibit No. 776"]:

I have received information with regard to the final decision in connection with the new basis for immediate annuities. The following companies will adopt for nonparticipating annuities the Standard Mortality Table for 1938 stepped down 1 year for men and 6 years for women, with 3-percent interest and $6\frac{1}{2}$ -percent loading on the gross rate, effective on the 1st of July, with the exceptions noted.

Then are listed the—

Aetna, Berkshire, Connecticut General, Fidelity Mutual, Guardian, Home Life, John Hancock, Massachusetts Mutual, Metropolitan, Mutual Benefit, New England Mutual, Penn Mutual, Phoenix Mutual, Provident Mutual, Prudential, State Mutual, Travelers, Equitable Life of Iowa (date not determined), Mutual Life (calculating rates on the above basis and anticipate they will be adopted by the trustees at an early date for use on July 1), Northwestern Mutual (with $7\frac{1}{2}$ -percent loading on gross, probably effective September 1), Connecticut Mutual (but on refund annuities probably the standard table, without set-back, with a higher loading than $6\frac{1}{2}$ percent). The National Life has not yet decided the matter.

Now, the memorandum states further on:

I anticipate that the Canadian companies doing business in the United States will use the same or an equivalent basis for their business in this country.

I should like to offer this.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 776" and is included in the appendix on p. 4855.)

Mr. GESELL. Now, the net result of all of this, then, Mr. Bassford, was that after your committee had examined the mortality experience and reported on that mortality experience to the two companies, some 14 companies indicated that they had an interest in adopting what appeared to be approximately the same rate, and thereafter there were one or two meetings held. Following those meetings a rather general program for a uniform rate basis was adopted.

Mr. BASSFORD. The net result of the study was, of course, that the companies all adopted the new mortality basis and changed nothing else.

Mr. GESELL. They kept the same interest and the same loading as had been in use before.

Mr. BASSFORD. That is right and only adopting the most up-to-date table—those who adopted it, of course.

Mr. GESELL. The uniformity in interest and loading had been established by the previous agreement, had they not?

Mr. BASSFORD. I don't know the agreements. There were uniform loadings and uniform interest among some companies but not all. Some companies which had different loadings may have changed at this time. I really don't know.

Mr. GESELL. As far as this change was concerned, will you explain for the committee just what participation therein was had by the New York State Insurance Department?

Mr. BASSFORD. The first meeting, the first experience which suggested to the companies that they needed a new basis for single premium annuities was an experience on settlement options on mortality under the life-income benefits under the settlement options, and the New York department in a meeting dealing with policy loan interest rate, I believe, had raised a question about settlement options, not only the basis but also the administrative provisions, and so on. So it was very indirect, I would say.

Mr. GESELL. It was very indirect, wasn't it? He talked to you about settlement options and in an effort to work out studies on settlement options you had to analyze your annuity experience, and from the analysis of the annuity experience new rates came into effect, but the superintendent hadn't talked to you about annuities at all.

Mr. BASSFORD. He hadn't talked to me about anything, but he had talked to one or two of the actuaries about the settlement options and, as I say, the reports showed, of course, the development of the new table for annuities was a direct result of the experience under the settlement options. It isn't direct, but it is merely a continuation of the sort of meeting that was originally inaugurated by the insurance department.

Mr. GESELL. He didn't attend any of the meetings which you had, did he?

Mr. BASSFORD. No; in one case he asked the Actuarial Society—that was Superintendent Beha in 1927—he asked the society to appoint a committee to get a new mortality basis for a new test, and the result of that was an investigation of annuity mortality, and Mr. Henderson, actuary of the Equitable, and Mr. Craig, our former

actuary, were a committee of two that made up this table, and a result was a new table called the Combined Experience Annuity Table.

Mr. GESELL. That was in 1927?

Mr. BASSFORD. Yes; that is right; which went into the law in 1930.

Mr. GESELL. I am on safe ground, am I not, Mr. Bassford, when I say that as far as the superintendent of insurance was concerned he had never done anything to encourage the companies to reach an agreement or an understanding, say, on a uniform loading for immediate annuities?

Mr. BASSFORD. I don't think the companies had reached an agreement on uniform loadings.

Mr. GESELL. Pass over the question of the word agreement. As a result of a bunch of conferences the companies have the same loading; now he hadn't tried to encourage that, had he?

Mr. BASSFORD. Except to the extent that he asked us to get an adequate basis for annuity rates and, of course, the best information—we attempted to get the best information, and the interchange of ideas naturally led to that conference.

Mr. GESELL. I must have been reading too many books, Mr. Bassford, about the work of an actuary. I was under the impression that the loading was determined, theoretically speaking, on the basis of each company's individual expense experience.

Mr. BASSFORD. No; that is not true. The loading is the amount which is added to the net premium in order to provide for expenses, partially, but it is also added as a proper margin of safety, and in some cases, for example, the premium rates of life insurance have been made less than the net premium on the American Experience Table, and the only function of the loading is to produce the answer which the actuary thinks is a proper answer, having in regard the safety of the company and probable future experience. That is, the loading isn't anything specific for any specific purpose at all.

Mr. GESELL. If he wants to give his company adequate margin of safety—I think those are the words you used—he does that in the selection of his mortality table.

Mr. BASSFORD. Not always. A proper table may not be available.

Mr. GESELL. Here you have a proper table.

Mr. BASSFORD. No; it isn't. Wait a minute. In the annuity business, as I explained in the beginning of my testimony, the mortality rate is improving. The past experience, therefore, is not a safe guide for the future experience as it is in life insurance. In life insurance an improvement in mortality reduces the cost. Under annuity business, since it is paid for the lifetime of the annuity, the reduction in the mortality rate makes the cost higher; therefore, if you use a past experience for mortality in the future, it isn't a conservative basis because of that general improvement.

Mr. HENDERSON. Mr. Gesell, may I ask a question? Would I interrupt too much?

Mr. GESELL. All right; I will come back.

Mr. HENDERSON. It is along the same line. Up to 1933, did each company compute its loading rate?

Mr. BASSFORD. No, no; I believe there were many companies having the same rates prior to 1933.

Mr. HENDERSON. No; that wasn't my question, Mr. Bassford. I said, did they compute them separately?

Mr. BASSFORD. I don't know what you mean.

Mr. HENDERSON. Did they compute their loading separately, individually? Did each company compute its own loading?

Mr. BASSFORD. I can't answer that; I don't know what you mean.

Mr. HENDERSON. In the make-up of a rate, you understand—

Mr. BASSFORD (interposing). I think each company computed its rate which, of course, would include its loading.

Mr. HENDERSON. Did they vary?

Mr. BASSFORD. Not very much. I think most companies loaded their single premium annuities 3 percent of the gross.

Mr. HENDERSON. Take the discussion we had here on group insurance where the expense ratio ranged from 7 to 15. Do we have a similar range of about 100 percent or more in what was added for loading in the single life, for example?

Mr. BASSFORD. Well, of course, Mr. Henderson, the group rates are participating rates. They are rates, initial rates as brought out by the previous testimony, and it isn't as necessary to get an answer as near to the probable cost under participating rates as it is under a nonparticipating rate. In answering your question, therefore, the companies had a loading which was substantially in excess of the average expense rate because, of course—

Mr. HENDERSON (interposing). Maybe you haven't understood me yet. What I asked was, of the amount called loading in the different companies, was there a substantial difference?

Mr. BASSFORD. For group life insurance—

Mr. O'BRIAN. No; he isn't asking about group life.

Mr. HENDERSON. Using that as an example showing that there had been a wide range between companies, I asked you whether in this arena we are now discussing, the loading which individual companies compute themselves, there was a difference.

Mr. BASSFORD. I don't think there was. I can't answer the question. I can tell you what our loading was every year.

Mr. O'BRIAN. Was the loading factor of the individual companies included in their several rates substantially the same or was it computed by different companies and fixed at different amounts. Is that the question?

Mr. HENDERSON. That is right.

Mr. BASSFORD. The answer is that I believe the loading factor was substantially the same as between companies. I think it was usually 3 percent.

Mr. HENDERSON. But it was not as a result of conference.

Mr. BASSFORD. I don't know. I had nothing to do with it at that time.

Mr. O'BRIAN. What time are you speaking of?

Mr. BASSFORD. You say prior to '33.

Mr. HENDERSON. Yes.

Mr. O'BRIAN. Yes.

Mr. GESELL. On that point, I have a copy of Best's Illustrations of 1933 and, referring you to page 529, I ask you if it is not a fact that there were only six of the conference companies that had the same loading factor in their annuity rates at that time.

Mr. BASSFORD. You said prior to '33.

Mr. HENDERSON. Yes.

Mr. BASSFORD. Do you mean immediately prior to 1933 or in 1929? I think there were about 10 companies having the same rate in 1928 and that is why I said there was some uniformity in rates, substantial uniformity in rates, prior to 1933. I think that between 1929 and 1933 there were changes in rates and when we changed ours in 1930 I think there were about 10, but I believe it is correct there were 6—prior to July 1, 1933.

Mr. GESELL. I am correct in saying, am I not, that there has been an increasing uniformity in recent years?

Mr. BASSFORD. Decreasing and increasing—decreasing from '29 to '33 and increasing from there on, right.

Mr. GESELL. Now coming back to this loading factor, you say that it includes a margin of safety, but it does also include the expense factor, does it not?

Mr. BASSFORD. That is right.

Mr. GESELL. Now is there any reason why such a large number of companies should make the same assumption as to their individual expense factors?

Mr. BASSFORD. There has been in recent years, because a few years ago the New York law, section 97, was amended, which fixed a limit expenses of 4 percent, and therefore if a company were to live within section 97 on annuities—it didn't have to do that individually—there was a necessity for them to reduce their expenses.

Mr. GESELL. That fixed the ceiling, but there might be well-managed companies which were below that 4 percent, might there not?

Mr. BASSFORD. There isn't much chance of variation below 4 percent when the commission is usually about 2½ percent and the expenses, as I know in my company, are between one and one and a half percent.

Mr. GESELL. But your uniformity of commissions was also a result of the agreements reached at this time?

Mr. BASSFORD. That is why I say, Mr. Gesell, that in the last few years I think some reason for the uniformity in commissions was the reduction in the allowance for expenses under single premium immediate annuities. It was 6 percent to 4 under section 97, and under the code which goes into effect, which the Governor signed today, by the way, it will be three and a half percent.

Mr. GESELL. But the fact still remains that there is a margin there?

Mr. BASSFORD. A small margin, yes; that is right.

Mr. GESELL. And by this agreement or understanding or whatever you want to call it, that margin disappeared, did it not, in a substantial number of companies?

Mr. BASSFORD. In a substantial number of companies, but I believe less than half the business is written by those companies.

Mr. GESELL. Well now, is it not a fact, Mr. Bassford, that for personal annuities the 26 companies attending these intercompany conferences that we have been talking about have at all times received over 90 percent of the personal annuity premiums in 1935, 1936, and 1937, and have always been in excess of 85 percent, if you examine them in terms of the percentage of annuity income?¹

Mr. BASSFORD. That isn't your question, Mr. Gesell. Your question was what proportion of companies having uniform rates—what is the

¹ See "Exhibit No. 780," appendix, p. 4857.

proportion of business done by companies having uniform rates, which is altogether different. The companies who attended the conferences, who had uniform rates, wrote only 44 percent of the business in 1938—the two largest companies, two largest annuity writing companies, having different rates.

Mr. GESELL. But those two companies were companies writing participating business, weren't they?

Mr. BASSFORD. That is right, but having different rates.

Mr. GESELL. Now, what about those that write nonparticipating business, what percentage of the nonparticipating annuity business is on the same uniform basis?

Mr. BASSFORD. Very large proportion.

Mr. GESELL. It is a very large proportion, isn't it?

Mr. BASSFORD. Yes, but two types of the business are in competition, so I don't see that means much.

Mr. GESELL. That is a matter of opinion, Mr. Bassford. We have a memorandum which indicates there was some effort to make the participating rates in harmony with the nonparticipating.

Mr. BASSFORD. They can't make participating rates in harmony; they can make them so that they wouldn't be lower, which might make it difficult for the nonparticipating companies to write business, but the contract is entirely different, so the question of harmony doesn't enter into it.

Dr. LUBIN. You were saying there might be harmony. Might there not, in terms of net cost to the purchaser?

Mr. BASSFORD. I doubt it; I don't think it would be possible unless they set out to do it.

Dr. LUBIN. Well, similarly it wouldn't be possible for your so-called nonparticipating policies to be in harmony unless they set out to do it, would it?

Mr. BASSFORD. I don't think you understood me, Doctor. I mean that it would be rather difficult to devise a dividend formula which would be equitable and which would produce the same cost under a participating policy as under a nonparticipating policy of any kind, whether annuity or life insurance.

Mr. GESELL. I have no further questions of this witness.

Acting Chairman REECE. Any further questions?

Dr. LUBIN. I would like to ask a question or two, Mr. Bassford. As I understood your testimony, you stated that it is your job as chairman of the subcommittee, and particularly as representative of the Metropolitan Life Insurance Co., to prepare a report which would show what rate ought to be charged on this type of policy, which would be equitable in the sense that it covered the costs and the risks involved?

Mr. BASSFORD. No; that is not so. Our job is to determine a proper mortality basis. Now, the mortality as brought out previously is only one of three factors affecting cost, and the only thing this committee did was to try to determine a proper basis of mortality, based upon what experience it had.

Dr. LUBIN. Well, that being the case, if that was your sole purpose, what interest did this committee have in caring or even being interested in knowing if and when the Aetna would accept this table? If it was your job to find the proper mortality table, having found it, why was it any concern of yours as to whether Aetna, Berk-

shire, or Connecticut General or anybody else adopted it and under what condition they would do it?

Mr. BASSFORD. That was merely my desire to get information. As I say, this thing is not definite; it is not specific, and we had made this report based partly on judgment and the reason for sending the questionnaire as to the rates which they were to adopt was to find out whether the rest of the actuaries who had contributed their experience and therefore were entitled to have the information—to find out whether they agreed with our recommendation or not as to the mortality table. And as I pointed out as part of the report, and as some of the discussions later developed, there were two methods of taking care of what we called select mortality, which means that the early mortality will be better and will add to the cost, and the idea was to find out what was the most authoritative, what was the best basis for taking care of that particular thing.

Now, as to date, the only reason that we were interested in the date, and the only reason, as far as our company was concerned, we cared about the date, was that the companies had put this experience together; each of the companies represented on that committee had probably contributed the experience of their company, and it seemed only fair to them that they ought to know what was going to be done about it. Just an exchange of information.

Dr. LUBIN. Apparently, as far as the Metropolitan Life Insurance Co. was concerned, it didn't care whether your mortality table was a good one or not, as I understand the report here, because their statement is, they will consider it if most companies adopt new rates.¹ Now, if it was a good mortality, what concern was it of theirs whether other companies adopted it or not?

Here is another company that says they will adopt it at the same time other companies would. Now, if it was a good table and their actuaries approved of it, why should somebody say that "We will do it if other people adopt it"?

Mr. BASSFORD. I can't answer that. I can answer the question as to date. Our reason for wanting to know the date is that it would be disturbing to our agency force if many companies came out with new rates before we did; they would want to know if we were going to increase ours and so on; so we were very much interested, if it were going to be adopted, about when it was to be adopted.

Dr. LUBIN. It is quite evident from this report, however, that some of the companies were not concerned with the validity of the mortality table; they were more concerned—

Mr. BASSFORD (interposing). I don't agree with you, Doctor.

Dr. LUBIN. They specifically say so.

Mr. BASSFORD. Where?

Dr. LUBIN. Before January 1, 1939, if new immediate annuity rates are generally adopted.²

Mr. BASSFORD. Where is that?

Dr. LUBIN. It is under Connecticut General; John Hancock says, "Before October 1, 1938, if new rates are generally adopted."³ Now, that assumes if new rates are not generally adopted they wouldn't change theirs, irrespective of the mortality table.

¹ See "Exhibit No. 774," appendix, p. 4850, at p. 4851.

² Ibid.

³ Ibid.

Mr. BASSFORD. The only thing I could say about that is they didn't even mention what table they were going to use. I assume they were planning to use this particular table; I don't know.

Dr. LUBIN. That was the only purpose of sending your questionnaire, and you sent the questionnaire—the report here is a mortality table. You say you want to know now whether they accept this idea, whether it is a good table. Now they say, "We don't give a hang whether it is; we won't accept it unless somebody else does."

Mr. BASSFORD. All I can say is that when we asked them they didn't tell us; and if you want to know, I think you are going to have to ask them.

Dr. LUBIN. The thing I can't understand is why you should be concerned as to whether they would adopt it. What you were after was the opinion of their actuaries as to whether or not this table was a valid table.

Mr. BASSFORD. That is right.

Dr. LUBIN. Why should you be concerned as to whether they would adopt the table, and if so why?

Mr. BASSFORD. I was anxious to find out what they thought was the best basis for annuities.

Dr. LUBIN. And let us assume they said, "This is the best basis, but as far as we are concerned"—that is what they said in many cases, "but as far as we are concerned that doesn't interest us; we will accept it if other people do."

Mr. BASSFORD. Well, my own idea is this, that if a large number of these people felt that this was a proper annuity table, then it appears to me that probably that was the best basis for an annuity table, and therefore I would want to adopt it.

Dr. LUBIN. But evidently many of these companies, as far as you were concerned, didn't.

Mr. BASSFORD. I am a little confused, Dr. Lubin. Are you interested in the date or the table or both? The date has nothing to do with the table.

Dr. LUBIN. No; I am interested in two things. First, a table was drawn up by a subcommittee, as I understood you; that table was sent to the actuaries of these various companies, so you could get their judgment as to whether that was a good or the best basis.

Mr. BASSFORD. That is right.

Dr. LUBIN. But you didn't stop there; you went a step further, apparently, judging by the answer to the questions in your report. You wanted to know whether they have accepted it and used it.

Mr. BASSFORD. I wanted to know whether—what basis of rates they were going to adopt, and when they were going to adopt them.

Dr. LUBIN. So you were interested in more than merely knowing whether or not they agreed that this was the best table; you wanted to know more, namely, will you use it; and thirdly, if you will use it, when will you use it?

Mr. BASSFORD. That is right.

Dr. LUBIN. Now on the basis of the replies it is quite evident that some of them said, "Why, this is apparently a good table, but we are not going to use it unless somebody else adopts it."

Mr. BASSFORD. I don't think that is true.

Dr. LUBIN. Well, wouldn't you conclude that if I came to you and said, "I will do this if somebody else does it," that my decision is

based not upon whether or not the table has definite merits, but as to whether or not somebody else will do the same thing?

Mr. BASSFORD. The statement which you read comes under the heading, "Comment on Date of Adoption," and not on the rate basis or table which was used.

Dr. LUBIN. But if you look at paragraph 1 you will see, although they have not decided on the basis, that their new rates appear as of the 1938 standard, new table, and loading $6\frac{1}{2}$ percent of gross was generally acceptable.¹

Mr. BASSFORD. That is only summarizing what is in the last column. Fourteen companies, at least 14, because some used a somewhat different loading; the participating companies and the Canadian Life did.

Dr. LUBIN. That is all, Mr. Chairman.

Mr. O'CONNELL. I take it that one of the factors, one of the things that was discussed and on which we seemed to have a certain amount of uniformity, was the interest factor. What does the interest factor represent, the return that the particular company makes on its investments?

Mr. BASSFORD. The interest factor under an annuity is the company's estimate of the interest rate at that particular time on new investments, because under single premium annuity the money is received in one sum and invested when it is received, so the going rate of interest on any investments would be very close to the determining factor.

Mr. O'CONNELL. Yes; but that would be the return on the investments of each company, I take it, or of the particular company.

Mr. BASSFORD. That is correct.

Mr. O'CONNELL. How do you account for or how would you explain the uniformity of interest rates? I should take it there would be a variance between companies as to their earnings.

Mr. BASSFORD. There was a slight variance.

Mr. O'CONNELL. But under this arrangement that variance is eliminated.

Mr. BASSFORD. None of the companies had any other rate than 3 percent. It was our understanding at the time these rates went into effect that the companies couldn't use a lower rate than 3—

Mr. O'CONNELL (interposing). What do you mean, they couldn't use a lower rate?

Mr. BASSFORD. The New York law. It isn't entirely clear and I understand it has been interpreted otherwise. The New York law fixes a minimum rate of interest for valuation at 3 percent, and that I understand, however, applies only to life insurance, although in the opinion of our people we thought it applied to annuities also. But 3 percent is about the lowest that any non-participating company has ever used for annuities, so we have got down almost to rock bottom.

Mr. O'CONNELL. But to the extent that there might be a difference between the income that the different companies would have, there would be the absence of this type of uniformity that we have, a different basis for interest.

Mr. BASSFORD. There might be.

¹ "Exhibit No. 774," appendix, p. 4850, at p. 4851.

Mr. O'CONNELL. But that, by virtue of this type of arrangement, is eliminated, too, as well as the difference in the loading factor, the expense.

Mr. BASSFORD. Because in this particular case, of course, we were down to the place where some of us felt we couldn't go any lower.

Mr. GESELL. What about on the way down?

Mr. BASSFORD. I agree that probably at times there was a difference. It is likely to be very close because the companies have generally the same type of investments and their new investments from time to time wouldn't differ very much.

Mr. O'CONNELL. To the extent they might differ, it would be immaterial insofar as these factors are concerned under this type of system?

Mr. BASSFORD. Yes; that is right.

Acting Chairman REECE. Any further questions?

Mr. GESELL. I have finished with this witness.

Mr. HENDERSON. May I ask some questions?

Mr. BASSFORD. I wanted to say just one thing, that is that these rates we make up are filed by our company in every insurance department; I think 26 insurance departments require filing of annuity rates, and the rates are widely publicized. I make that statement only because I want to get away from the thought that there is any secret about what we do in this respect. Whatever we do is open and known to the public.

Dr. LUBIN. When you say that do you mean you notify these insurance departments you had a meeting with the actuaries and agreed you would have a certain rate?

Mr. BASSFORD. I didn't say that.

Dr. LUBIN. When you said you make all the facts known I wondered what you were referring to.

Mr. BASSFORD. I said there is no secret about our meetings. They are reported in many of the insurance journals and there is no secret about our rates. They are published, and one particular publication lists the companies that have uniform rates, so it is very widely known.

Dr. LUBIN. When you say that the insurance journals report these facts are you implying that the insurance journals say there was a meeting on such a date of actuaries of certain companies, and these companies have agreed to accept this rate?

Mr. BASSFORD. No; they don't say that, because it isn't true.

Mr. GESELL. The nature of the discussions that go on at the meetings is not reported.

Mr. BASSFORD. Of course not; but I believe they have mentioned from time to time that there have been meetings.

Mr. HENDERSON. Mr. Bassford, have you represented the Metropolitan in this series of meetings which began in March of 1933?

Mr. BASSFORD. Only in recent years. In the early years I didn't. I became actuary in 1936.

Mr. HENDERSON. You didn't participate in the earlier meetings?

Mr. BASSFORD. Not all of them. I may have gone. Mr. Craig was actuary at that time and I have attended some, and some others I may not have attended. In recent years I have attended all of them.

Mr. HENDERSON. That would mean that you have attended probably four as the direct representative.

Mr. BASSFORD. I would think at least that.

Mr. HENDERSON. How many more do you think you have attended?

Mr. BASSFORD. I can look it up and tell you. I would think it would be more than four. I would say at least six.

Mr. HENDERSON. You think in addition to these four that you attended two of the previous meetings?

Mr. BASSFORD. Yes, sir.

Mr. HENDERSON. Did you attend the meeting of May 18, 1933, the big meeting?

Mr. BASSFORD. I will have to look it up. No; I didn't.

Mr. HENDERSON. Mr. Craig probably represented you.

Mr. BASSFORD. Yes; that is right.

Mr. HENDERSON. In these prior meetings your company went along on the general idea of getting a common understanding about these items?

Mr. BASSFORD. I couldn't call it a common understanding, Mr. Henderson.

Mr. HENDERSON. For example, Mr. Flynn, reporting on the meeting of May 18, 1933, details a basis and then says:

The companies voting for the above proposal were: * * * the Metropolitan.¹

Mr. BASSFORD. I think you will find, Mr. Henderson, that usually we are about the first one on the list, and that we have always been anxious to get our rates on an adequate basis. I mean that we don't go along; we start it.

Mr. HENDERSON. How about a comparable basis? Are you interested in having other companies fairly near your rates as a matter of competition?

Mr. BASSFORD. As a matter of fact, I think I would prefer, if anything, to have the other companies have lower rates than we have.

Mr. HENDERSON. You would prefer them to have lower rates?

Mr. BASSFORD. Yes.

Mr. HENDERSON. Why?

Mr. BASSFORD. Because I don't think we want a large amount of this business. I am talking now about single premium annuities.

Mr. HENDERSON. Do you have to write this business?

Mr. BASSFORD. No; not at all. We think it is a good thing, and that is why we write it. It is a very fine service. In fact, every policy that we issue in the ordinary department has a provision under the optional modes of settlement which provides for a life income, which is an annuity, and, therefore, the selling of the single-premium individual annuities performs a service that goes along with the life insurance.

Mr. HENDERSON. Where you get into a discussion at these meetings you have attended, and a proposal of some kind is made, don't you say, "We will go along if there is a large enough group going along"?

Mr. BASSFORD. I guess we do; yes. I think we have said that.

Mr. HENDERSON. That isn't just a question of adequacy of your own rate, then, is it?

¹ See "Exhibit No. 756," appendix, p. 4831.

Mr. BASSFORD. I think it is. I think it represents the best opinion as to what is an adequate rate.

Mr. HENDERSON. I am talking about your going along.

Mr. BASSFORD. "Going along"—that is an expression that is sometimes used. I would not say it in just that way. I would say that if the majority think that is a good rate we would be willing—well, I can say it there—to go along; that we think that is a good rate.

Mr. HENDERSON. I took the language right out of your memorandum:¹

The next question asked was what companies would favor a rate lower than the 1938 standard table and only three companies expressed a real desire to adopt rates on a lower basis—the Mutual, Phoenix, and New York Life. I stated that we would go along if a large enough group of companies did it.

Mr. BASSFORD. That particular thing you are asking about, Mr. Henderson, deals with settlement options, I think. I think the heading is—

Mr. HENDERSON (interposing). No; that is options on life income.

Mr. BASSFORD. That's right; the life income options, settlement options. If you will read the previous paragraph—

Option 3 (Life income) the question was asked—What companies were willing to adopt income no lower than by the 1938 Standard Table with 3 percent interest throughout. All companies voted in favor of doing this except the Guardian and Mutual Benefit. The Guardian have recently adopted—

and so on.²

In the next paragraph it deals only with the mortality table.

The next paragraph, where I stated that we would go along, deals only with the question as to whether that 1938 standard table was the proper table, or a table which would be a more conservative table was a proper table. That is, it is the mortality basis we were talking about.

Mr. HENDERSON. That's right. Your decision there, according to your own language, was that if enough companies wanted it you would go along.

Mr. BASSFORD. That, of course, is a rough way of saying it. If enough actuaries thought it was the proper basis, we thought so too.

Mr. HENDERSON. You say it is a rough way of saying it. It is your way of saying it.

Mr. BASSFORD. That's right. It is exactly the way of saying it.

Mr. HENDERSON. When something has come up in these meetings you have attended, and there is a discussion about what the larger companies will do and some request is made, you do, for the sake of harmony, make adjustments in your own basis for the sake of going along, don't you?

Mr. BASSFORD. I don't think so.

Mr. GESELL. Let me ask this, if I may, Mr. Henderson: You said you would be glad if all the other companies had lower annuity rates than you do?

Mr. BASSFORD. I said personally. I don't think the company would.

Mr. GESELL. Why doesn't your company raise its rates higher than the other companies?

Mr. BASSFORD. Because we want to give our policyholders the opportunity to buy annuities at reasonable rates.

¹ See "Exhibit No. 775," appendix, p. 4852, at p. 4853.

² Ibid.

Mr. GESELL. I take it you feel the rate for annuities should still be higher, don't you?

Mr. BASSFORD. We raised them July 1, 1938. We probably will raise them again next year, and every year so long as the interest rates go down.

Mr. GESELL. Why don't you just raise your annuity rates now and get in the position you feel, as the actuary of the Metropolitan, you should be in, with higher rates than the other companies?

Mr. BASSFORD. Well, one reason is that I don't have the say as to what the rates are.

Mr. GESELL. Who has the say—the agency force?

Mr. BASSFORD. The president and the chairman of the board.

Mr. GESELL. Mr. Ecker has decided it is not advisable?

Mr. BASSFORD. I say that the annuity business has produced a loss, and naturally an actuary doesn't like business that produces a loss. I said it was my personal opinion that I would be just as well pleased if we didn't have it; but, as a service to our people, I think we should offer it.

Mr. GESELL. Do you mean you ought to continue to write it at a loss?

Mr. BASSFORD. No; not at all.

Mr. GESELL. Why don't you raise your rates?

Mr. BASSFORD. Because I don't think they need it right now.

Mr. GESELL. You feel they are going to need it within a few months.

Mr. BASSFORD. Interest rates have gone down every year since 1930. There have been very substantial reductions in interest rate in the last several years and I think that the rates adopted in July 1938, were certainly adequate at that time. I think they are adequate today. I am not sure they are going to be adequate next year if interest rates continue to go down.

Mr. GESELL. What did you lose last year on annuities?

Mr. BASSFORD. About \$300,000.

Mr. GESELL. And you have lost money off and on during these last years, haven't you?

Mr. BASSFORD. Yes; we have lost about \$2,000,000 over the past 10 years, a substantial part of that being due to the increase in our reserve basis.

Mr. GESELL. And you feel as the actuary of the Metropolitan that the rate should be higher on annuities, do you not?

Mr. BASSFORD. No; I don't. Don't forget that that loss of \$300,000 doesn't come out of the annuities we wrote last year, it comes out of annuities we have written every year for the last 30 years.

Mr. GESELL. Regardless of where it comes from, if you are losing money on annuities I am surprised that you don't feel the rate should be higher.

Mr. BASSFORD. That is because you don't understand.

Mr. GESELL. Will you explain it to me; please?

Mr. BASSFORD. I will explain it to you.

We have been issuing annuities for 30 years. The loss you speak of isn't the loss due to the annuities we wrote last year. In fact, we had a profit on the annuities we sold last year. But the cost comes from the reducing interest rates which affect all contracts issued as far back as we have been issuing annuities.

Mr. HENDERSON. Let me ask you this: Take an annuity written 30 years ago. The interest rate goes up this year. Aren't you less likely to lose on that?

Mr. BASSFORD. Yes.

Mr. HENDERSON. So you are interested in what that interest rate is.

Mr. BASSFORD. Oh, I didn't say I wasn't interested.

Mr. HENDERSON. I thought you were trying to make it follow from your testimony that it had nothing to do with these 30 previous years.

Mr. BASSFORD. No; what I am saying is, the loss of \$300,000 shown in our "Gain and loss" exhibit for 1938 is not the loss for the annuities we issued in 1938.¹ It is the loss of the entire amount of business we have, some of which may have been issued 50 years or 40 years ago.

Mr. HENDERSON. Getting back to this other item, Mr. Flynn in his memorandum said [reading from "Exhibit No. 756"]:

Throughout the conference it was apparent that the largest companies were quite willing to make changes for the good of their companies and the business in general. The opposition was generally found in the smaller, self-sufficient, participating companies. If these concerns could be brought to a better appreciation of the current situation, the present is a wonderfully fine opportunity for clearing up many of the present troubles of the life business.

Now, in the meetings that you have attended, when questions came up in which somebody suggests that it would clear up some of the present troubles if your company or a group of companies would go along, what attitude did you take then? Do you recall anything like that coming up in any of these four meetings?

Mr. BASSFORD. I don't remember anybody ever saying that they would raise their rates if the Metropolitan did. The Metropolitan meets companies in competition which are just a few companies, and I don't think that anyone ever used us as their reason for wanting to raise rates. I know that I have not based any of my decisions or recommendations on what other companies would do, except to the extent of trying to get the best judgment.

Mr. HENDERSON. Do you regard this conference method as a good one?

Mr. BASSFORD. I think it is excellent to get as much information as possible on a subject that is as troublesome as the annuity business is at the present time, with a very decreasing interest rate.

Mr. HENDERSON. Do you think it a good thing to have a uniform interest assumption?

Mr. BASSFORD. I don't think it makes much difference.

Mr. HENDERSON. Do you think it is a good thing to have uniform loading?

Mr. BASSFORD. Not necessarily; no.

Mr. HENDERSON. Do you think it is a good thing to have uniform mortality-table acceptance?

Mr. BASSFORD. I don't think it makes any difference, except to the extent that you get the best table available.

Mr. HENDERSON. Did you express yourself in these conferences as being relatively indifferent concerning uniformity?

Mr. BASSFORD. Usually; yes.

¹ In this connection see "Exhibit No. 752," appendix, p. 4826.

Mr. HENDERSON. That is, in the conferences you took an attitude different from some of the other companies which are very much interested in getting a general harmonious acceptance?

Mr. BASSFORD. I think that is true.

Mr. HENDERSON. That is, on this 3-percent loading and 6½ percent—

Mr. BASSFORD (interposing). Three-percent interest and 6½-percent loading.

Mr. HENDERSON. Yes; if a number of companies thought that was a pretty good thing, was that a matter of indifference?

Mr. BASSFORD. No; I wouldn't say it was indifference. I would say that if a number of companies thought it was a good basis, that probably it was a good basis. To that extent I would be glad to adopt it.

Mr. HENDERSON. But you are not, I gather, interested so much in this conference except as an exchange of actuarial experience, a comparison of loading and ideas on interest rates.

Mr. BASSFORD. Well, yes; I think that is correct.

Mr. HENDERSON. You regard it much the same as a meeting of a learned society, the Actuarial Society?

Mr. BASSFORD. I think that is just what it is, Mr. Henderson.

Mr. HENDERSON. Maybe you and I, then, take a different point of departure. I fail to see that a meeting of a learned society is the same thing as a number of company representatives meeting and a uniformity emerges. Whether or not you like the word agreement, you kept ducking on that—

Mr. BASSFORD (interposing). Well, it can be used in two ways. That is why I ducked.

Mr. HENDERSON. Isn't there something more than just an academic interest, an exchange of intellectual gymnastics that goes on?

Mr. BASSFORD. This is a practical business, Mr. Henderson.

Mr. HENDERSON. Well, now—it is a practical business, certainly. Do you regard it as a business in which a certain amount of cooperation should take place?

Mr. BASSFORD. Well, it can't be anything else.

Mr. HENDERSON. Should the cooperation take place on the basis of common acceptance of these factors which make up the rate? What do you think about that?

Mr. BASSFORD. I think in cases where so little information is available as under annuities that probably we want to get, as I say, all the information we can, and when a lot of people agree with me as to what they are going to do, I think that probably I have the right answer.

Mr. HENDERSON. Do you think that is a good thing?

Mr. BASSFORD. I think it is a good thing in the case of this individual policy, where we don't have sufficient information, and where the factors affecting it are changing so rapidly. As a matter of fact, practically in every other line of our business our rates disagree with every other rate, and except for this one-fiftieth of 1 percent of the contracts, our contracts are all very highly competitive. There are about 8,000 individual immediate annuities out of about 40,000,000 contracts.

Mr. HENDERSON. And this is the only line where you have that?

Mr. BASSFORD. Oh, yes; as a matter of fact, no other company has the same ordinary-life insurance rate as we do. I think of some 197 companies which reported their rates in Best's for 1939 there were 146 different gross premiums for 20-payment life. That makes up a bulk—probably the other plans of life insurance would show the same results, and if you consider that 96 of those companies are participating and that the costs would be different, meaning the premiums, or the initial premiums, there would be 163 different costs under a 20-payment life policy out of 197 companies who list their rates in that book, and it seems to me that is a fair indication that there is plenty of competition in the rest of our business.

(Mr. O'Connell took the chair.)

Mr. GESELL. Even in your ordinary policies, though, you have eliminated some degree of competition by reaching an agreement on settlement options?

Mr. BASSFORD. The settlement options in our policies are different from those—the benefits themselves differ from those of most other companies. The basis for those settlement options is the same as many other companies, merely because we use our own values rate which is 3-percent interest.

Mr. GESELL. I am talking about the kind of settlement options you will offer.

Mr. BASSFORD. No; they are not the same. Our options are not the same. There is a wide difference between the options of the companies.

Mr. GESELL. Do you not know that the companies have entered into an understanding with respect to certain basic settlement options which will be offered?

Mr. BASSFORD. No; they haven't done anything of the kind.

Mr. GESELL. We will present testimony with respect to that next week.

Mr. HENDERSON. I suggest then that you discontinue this line of interrogation until we get to where you can develop the matter.

Acting Chairman O'CONNELL. Are you through with the witness?

Mr. GESELL. I have nothing more.

(The witness, Mr. Bassford, was excused.)

Mr. GESELL. Before the record is closed, I should like to offer two or three documents. First, a letter signed by Mr. Cammack, addressed to Mr. Laird, dated October 22, 1934, which was obtained from the files of the Connecticut General Life Insurance Co.

Acting Chairman O'CONNELL. It may be received.

(The letter referred to was marked "Exhibit No. 777" and is included in the appendix on p. 4856.)

Mr. GESELL. The next is a memorandum from Mr. Cammack dated May 13, 1938, which was obtained from the files of the Aetna Life Insurance Co.

Acting Chairman O'CONNELL. It may be received.

(The memorandum referred to was marked "Exhibit No. 778" and is included in the appendix on p. 4856.)

Mr. GESELL. A memorandum dated October 10, 1938, signed by Mr. John M. Laird, of the Connecticut General Life Insurance Co.

Acting Chairman O'CONNELL. It may be received.

(The memorandum referred to was marked "Exhibit No. 779" and is included in the appendix on p. 4857.)

Mr. GESELL. And a schedule prepared by the staff of the commission from Spectator Year Book, entitled "Exhibit of Personal Annuities," which shows the percentage of annuity premiums and annual income to annuitants written by conference companies.

Acting Chairman O'CONNELL. It may be received.

(The schedule referred to was marked "Exhibit No. 780" and is included in the appendix on p. 4857.)

Mr. GESELL. That finishes for today.

Acting Chairman O'CONNELL. What is your pleasure about next week or the next hearing?

Mr. GESELL. I believe the understanding was Tuesday at 10:30.

Acting Chairman O'CONNELL. The committee will stand in recess until Tuesday at 10:30.

(Whereupon, at 4:40 p. m., an adjournment was taken until Tuesday, June 20, 1939, at 10:30 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

TUESDAY, JUNE 20, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:40 a. m., pursuant to adjournment on Friday, June 16, 1939, in the Caucus Room, Senate Office Building, Representative B. Carroll Reece, presiding.

Present: Representative Reece (acting chairman); Messrs. Henderson, O'Connell, and Brackett.

Present also: Harry J. Daniels, Department of Commerce; Willis Ballinger, Federal Trade Commission; Ernest Meyers and Joseph Borkin, Department of Justice; and Gerhard A. Gesell, special counsel, Securities and Exchange Commission.

Acting Chairman REECE. The committee will please come to order. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. Yes; I am.

INTERCOMPANY AGREEMENTS—SETTLEMENT OPTIONS

Mr. GESELL. The first witness this morning is Dr. Hunter, who was on the stand on Friday. Today the Commission will continue with the presentation of testimony illustrating the character and effect of various interinsurance companies' understandings which may have a tendency to restrict competition. The committee will recall that last Friday, during the presentation of testimony relating to intercompany conferences designed to bring about uniform annuity increases, reference was made on several occasions to the discussions which took place at those conferences with respect to settlement options.

Settlement options are available to the holder or beneficiary of many forms of ordinary life insurance policies. It is through the exercise of such options that the insured or the beneficiary may arrange for the payment of the proceeds of a policy. Different modes of settlement are available. The testimony today will be for the purpose of developing the procedure through which the leading life insurance companies arrived at a mutual understanding to restrict forms of settlement options.

You have already been sworn, have you not?

Dr. HUNTER. Yes.

TESTIMONY OF DR. ARTHUR HUNTER, CHIEF ACTUARY AND VICE PRESIDENT, NEW YORK LIFE INSURANCE CO., NEW YORK, N. Y.—Resumed

Mr. GESELL. Will you tell us, Dr. Hunter, what settlement options are and why in recent years they have become an increasing problem to the insurance business?

Dr. HUNTER. At the time of the investigation in New York, which is sometimes known as the Hughes Investigation, sometimes the Armstrong, the life insurance companies were required to issue in New York State exactly the same form of policy, word for word; there was no variation permitted at all. And in these policies there were three forms of settlement options. That is to say, at the death of the insured or at the maturity, three forms of settlements could be required by either the insured or the beneficiary.

The first one was payment of an annuity equal to a certain percentage of the proceeds of the policy, which usually was 3 percent. It simply was a guaranty of interest during the lifetime of the beneficiary.

The second one was that specified amounts or installments could be obtained over a series of years, and the table was inserted in the policy.

And the third one was that there should be equal installments for a fixed period of 20 years and payment for life thereafter if the beneficiary survived.

In other words, a guaranty of 20 years with continuation during the lifetime of the beneficiary after that time.

That was the provision in the laws of the State of New York at that time. These ran along for a number of years and they are practically in existence today with one or two developments. For example, there is one which provides that a certain amount may be taken out of the proceeds of the policy each year until that amount is exhausted. That covers the general group of four settlements in the policy.

Mr. GESELL. Am I correct in stating that in recent years more complex forms of settlement options have developed?

Dr. HUNTER. Yes. I am referring, Mr. Gesell, just to what is provided in the policy. Outside the policy very complex forms have developed in recent years.

Mr. GESELL. Will you tell us about that development, please?

Dr. HUNTER. That development covers partly combinations of these options in the policy. For example, a company might provide in its policy for interest during the lifetime of the beneficiary or for a certain period. That is combined with another option in the policy. Let me take an example. Suppose when the man insures, his wife is 35 years of age, he might ask that the money may be left at interest until she has attained 55 years of age, and at that time another option be added to it, namely, that there should be fixed installments for a period of 10, 15, or 20 years, with continuation during her lifetime if she lived beyond that period.

Mr. GESELL. Generally speaking, there were many different combinations of these basic settlement options, were there not?

Dr. HUNTER. Yes; many of them.

Mr. GESELL. And I presume that one company in a desire to offer a slightly different service than another company, would increase the complexities of its settlement option rules and provisions?

Dr. HUNTER. The competition did increase the complexity of these settlements.

Mr. GESELL. These settlements are available on practically all forms of ordinary life insurance policies, are they not?

Dr. HUNTER. Yes. Term insurance generally; no, the other; yes.

Mr. GESELL. Am I correct in saying that sometime in 1935 the companies began to give consideration to the desirability of limiting or restricting in some manner the forms of settlement options?

Dr. HUNTER. Yes.

Mr. GESELL. Do you recall when that idea first originated, and with whom it originated?

Dr. HUNTER. I would say it was spontaneous on account of the conditions. I question whether it originated with anyone. It came out as a matter of discussion among actuaries as the result of the decreasing rate of interest.

Mr. GESELL. Well, now, we are talking about the various forms of settlement options. Many of those had become complex, had they not, and the actuaries felt they should be curtailed, quite apart from the consideration of the interest rate?

Dr. HUNTER. That was part of the reason, because so many of these settlement options outside the terms of the policy extended for a much longer period than the provisions in the policy.

Mr. GESELL. Do you recall when the first discussions took place with respect to the restricting the forms of settlement options?

Dr. HUNTER. I should say in the fall of 1935.

Mr. GESELL. Reading from a memorandum of a meeting at your office on October 10, 1935—

Dr. HUNTER (interposing). Did I say 1935?

Mr. GESELL. Yes; you did. I was simply trying to fix the exact meeting. The memorandum reads as follows [reading from "Exhibit No. 766"]:¹

Dr. Hunter evidently wanted to start a movement to curtail these prolonged settlements, but the Mutual Benefit and the Mutual Life practically killed the movement by saying they would continue to do almost anything. Apparently the Northwestern Mutual is also very liberal, but is said to be receding from such liberality. The Canada Life for 7 years has had in its contracts a provision that settlement options will be available during such time as may be agreed upon by the company.

That notation is contained under the general heading in the memorandum, "Should the Special Agreements Which Generally Combine Two Settlements in the Policy Be Discontinued?" So it was about in the fall of '35, was it not?

Dr. HUNTER. Yes.

Mr. GESELL. In broaching that subject at that meeting, Dr. Hunter, had you had previous conferences with actuaries concerning the problem?

Dr. HUNTER. Not that I remember, but we had discussions from time to time.

¹ See appendix, p. 4840, at p. 4842.

Mr. GESELL. And you thought at this time that the situation had reached a stage where it was desirable to bring it to this group for consideration?

Dr. HUNTER. Yes.

Mr. GESELL. Why should the fact that two companies, the Mutual Benefit and the Mutual Life, having slightly different programs, kill any movement to curtail the prolonged settlements?

Dr. HUNTER. It didn't.

Mr. GESELL. The memorandum states that you wanted to start a movement to curtail these provisions for prolonged settlement, but the Mutual Benefit and Mutual Life practically killed the movement.¹

Dr. HUNTER. May I ask who wrote that? I don't think I did.

Mr. GESELL. This is a memorandum of Mr. Laird's, which is in the record. At that time was the program delayed because of the position of those two companies?

Dr. HUNTER. I doubt that.

Mr. GESELL. What was the first step in the program to bring about this curtailment?

Dr. HUNTER. I think that the first step was an analysis by a number of companies of the complex and long-continued settlements which they had. My memory is that a number of companies did make such an analysis. I know our company did.

Mr. GESELL. Do you recall that at the meeting of October 24, 1935, as indicated by "Exhibit No. 768"² of the record, a small committee of actuaries and lawyers was appointed?

Dr. HUNTER. Yes.

Mr. GESELL. The memorandum states [reading from "Exhibit No. 768"]:

A small committee of actuaries and lawyers will get together in New York to see what restrictions, if any, can be agreed upon. In the meantime the five Hartford companies will have a meeting consisting of one actuary and one lawyer from each company, and then the five will send two representatives to the meeting in New York.

Dr. HUNTER. Yes.

Mr. GESELL. I take it from that that the program was to be initiated both by the studies of this committee and by a meeting of a small group of actuaries representing a selected number of the leading companies?

Dr. HUNTER. Yes.

Mr. GESELL. Do you recall what developed out of the appointment of that committee?

Dr. HUNTER. There were two meetings at my office, but so far as I remember, the differences were so great that we didn't come to any common understanding.

Mr. GESELL. Will you tell us what those differences were, Dr. Hunter, as between companies? Give us some ideas of the discussions that took place.

Dr. HUNTER. That is rather difficult; it is so long ago. I know my opinions were quite positive at that time on certain restrictions. I think one of them was that it was inadvisable to leave the proceedings of life-insurance policies at interest during the life of more than two beneficiaries.

¹ See appendix, p. 4842.

² Ibid, p. 4844.

Mr. GESELL. I understood you to say that there were differences, and no progress was made.

Dr. HUNTER. That was one of the differences. Some of the companies believed that that should be done, others didn't. I might add one more that comes to my memory, and that was that some companies provided that on remarriage the share of the wife should go to the children, that the wife had forfeited her rights, and there was a very distinct difference of opinion regarding that.

Mr. GESELL. Am I correct in saying that at that time there was, as between individual companies, a very broad difference of opinion?

Dr. HUNTER. Oh, yes.

Mr. GESELL. I take it that the purpose of the meetings was directed toward bringing about some uniform rules restricting the forms of settlement options.

Dr. HUNTER. I would rather say, instead of uniform rules, that it was the purpose of the meeting to restrict the unduly complicated and long-continued settlements.

Mr. GESELL. And your desire was that all companies would enter into such restrictions, was it not?

Dr. HUNTER. Not necessarily, but that the worst of the long-term continued ones should be eliminated.

Mr. GESELL. And so far as the elimination of those settlement options is concerned, they should be eliminated by a representative group of companies.

Dr. HUNTER. That proved not to be so.

Mr. GESELL. That was what you were working for at that time.

Dr. HUNTER. Not so far as I was personally concerned, because we had decided practically what we would do. It wasn't decided until later. It was impossible, Mr. Gesell, for companies to come together for uniformity when there was such a wide difference of opinion as to what should be done. There might be a few come together, but uniformity in that respect was impossible.

Mr. GESELL. And the lack of uniformity at that time resulted in many companies not putting on any restrictions on their modes of optional settlement?

Dr. HUNTER. I believe so. Remember, Mr. Gesell, we are talking about outside contracts.

Mr. GESELL. Yes; we are talking about rules restricting the forms of settlement options.

Dr. HUNTER. Special settlement options, as we called them.

Mr. GESELL. Do you recall the meeting which was referred to in this memorandum,¹ namely, a meeting among representatives of the Hartford companies and representatives of the five large New York companies?

Dr. HUNTER. There was a meeting, two meetings in my office at which two of the Hartford companies were present, an actuary and a lawyer. I don't think it was the five largest companies, because, as I remember it, the lawyer from the Northwestern Mutual was among us, but there was such a meeting.

Mr. GESELL. I have a memorandum from the files of the Connecticut General which records a meeting held on November 14, 1935.² It states [reading from "Exhibit No. 783"]:

¹ "Exhibit No. 768," appendix, p. 4844.

² Entered later as "Exhibit No. 783." See appendix, p. 4858.

There were present Messrs. Hunter and Cramer, of the New York Life; Messrs. Murphy and Schelker, of the Equitable; Messrs. Craig and Keyes, of the Metropolitan; Mr. Strong, of the Mutual Life; Mr. Percy Evans, of the Northwestern; and Messrs. Laird and Yost, representing the Hartford companies.

Dr. HUNTER. My memory is wrong. I thought Mr. Evans was their counsel; maybe at the second meeting the counsel was present.

Mr. GESELL. How did it happen these particular companies came to this meeting, Dr. Hunter? This was a smaller meeting, was it not, than the customary intercompany meetings you had been holding?

Dr. HUNTER. These names were suggested at the meeting which preceded that.

Mr. GESELL. Would it be fair to say this was really a subcommittee of the main conference?

Dr. HUNTER. Yes; I think that is correct.

Mr. GESELL. Attended by representatives of companies particularly interested in the problem.

Dr. HUNTER. Yes.

Mr. GESELL. Do you recall that the Prudential was invited to this meeting?

Dr. HUNTER. No; I can't recall.

Mr. GESELL. Does that letter refresh your recollection, Dr. Hunter?

Dr. HUNTER. Yes.

Mr. GESELL. The letter was addressed to Mr. J. F. Little, vice president and actuary of the Prudential, signed by Dr. Hunter, dated November 6, 1935, and states [reading from "Exhibit No. 781"]:

We are having a meeting with regard to special agreements under settlement options at my office on Thursday, November 14, at 10 o'clock. There will be two representatives each from the Metropolitan, Equitable, Mutual, and New York Life. If you care to be present we shall be glad to have you, but I understood you to say that it was unlikely that you would make any change in your present liberal plans.

Do you recall receiving a reply to that letter, Dr. Hunter?

Dr. HUNTER. No.

Mr. GESELL. I show you this document and ask you if that refreshes your recollection.

Dr. HUNTER. Yes.

Mr. GESELL. You recall that as a reply you received?

Dr. HUNTER. Yes.

Mr. GESELL. The letter is dated November 12, 1935, and states as follows [reading from "Exhibit No. 782"]:

In reply to your letter of the 6th instant, we will not have a representative at the meeting in your office next Thursday, as the smaller committee will probably proceed more expeditiously.

You did not understand me rightly in supposing that we are not prepared to make any change in our present rather liberal rules. I have felt for a long time that we, under the stress of competition, have become rather too liberal in two directions; first, in undertaking certain arrangements that perhaps we should refuse and, second, in allowing very complicated and intricate settlements, some of which have already come through to the claims department and had that department very much concerned as to just what the complicated settlement really meant.

If some reasonable rules as to what may and may not be allowed can be adopted generally, we shall be glad to go along. We have already in some cases refused to adopt complicated arrangements that we felt would cause difficulty and possibly legal action, but we still do allow arrangements that are quite troublesome

to handle when death occurs. A general understanding to refuse to allow complex settlements would probably be helpful.

I wish to offer this correspondence for the record.

Acting Chairman REECE. It may be admitted.

(The letters referred to were marked "Exhibits No. 781 and No. 782" and are included in the appendix, p. 4858.)

Mr. GESELL. I would like also to offer at this time the memorandum from the files of the Connecticut General with reference to the meeting of November 14, 1935.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 783" and is included in the appendix on p. 4858.)

Mr. GESELL. I believe you said there were two meetings at which a lack of uniformity was shown.

Dr. HUNTER. Yes.

Mr. GESELL. We have already considered one, that of November 14, 1935. Do you recall that the next meeting was on June 30, 1936?

Dr. HUNTER. I remember a long time elapsed before we took up that subject again.

Mr. GESELL. And there was still disagreement at the 1936 meeting, was there not—the June 30, 1936, meeting?

Dr. HUNTER. Yes.

Mr. GESELL. Do you recognize this document as a memorandum which you prepared summarizing what took place at that meeting?

Dr. HUNTER. Yes; I recognize that.

Mr. GESELL. Under the heading "Settlement agreements," you state:

There was a unanimous opinion that in our settlement agreements we were practically preparing the wills of a great many persons, some of them so involved that lawsuits were likely to determine their interpretation. A committee of actuaries and lawyers in charge of the settlement agreements was held about a year ago but produced no results. Each actuary agreed that he would try to lay down certain cardinal principles in the hope that some understanding could be reached. One of these was that the first beneficiary could leave the proceeds on deposit during her lifetime but the second beneficiary must select an option which would deplete the capital.

Then I take it that the committee to which you refer was the committee that was appointed sometime back, which was referred to in "Exhibit No. 768,"¹ as having been appointed at the meeting of October 24, 1935.

Dr. HUNTER. It would contain probably the same actuaries but not the lawyers of the men from the special settlements departments.

Mr. GESELL. You are referring to a committee of actuaries and lawyers, a meeting that "was held about a year ago and produced no results."

Dr. HUNTER. Yes; that is right.

Mr. GESELL. That would be the one appointed on October 24?

Dr. HUNTER. That is right.

Mr. GESELL. Have you any idea as to why they produced no results?

Dr. HUNTER. Possibly the more professions you get together, the more difficult it is to come to an understanding.

Mr. GESELL. You mean you feel the presence of the lawyers on the committee held the thing up?

¹ See appendix, p. 4844.

Dr. HUNTER. I wouldn't go as far as that, but it made it even more difficult to come to an understanding.

Mr. GESELL. When you say they accomplished nothing, I take it you mean that they were unable to initiate any uniform program for restricting these settlement options.

Dr. HUNTER. Yes.

Mr. GESELL. Do you recall who was present at this meeting of June 30, 1936?

Dr. HUNTER. No; unfortunately.

Mr. GESELL. Reading from a memorandum from the files of the Metropolitan, I ask you whether this refreshes your recollection as to who was present:

At the conference held at the New York Life's office Tuesday, June 30, a number of the companies were represented, including not only the larger New York companies but the Penn Mutual, Mutual Benefit, Union Central, Sun Life, New England Mutual, Massachusetts Mutual, Travelers, Aetna, Provident Mutual, Connecticut General, Northwestern, National of Vermont, Phoenix, John Hancock, United States, and Guardian.

Dr. HUNTER. Yes; that sounds reasonable.

Mr. GESELL. That sounds like the group that was present?

Dr. HUNTER. Yes.

Mr. GESELL. At that meeting, Dr. Hunter, was a new committee appointed?

Dr. HUNTER. I can't remember.

Mr. GESELL. There was a committee, a subcommittee appointed to consider this problem of revising the practice on optional settlement, was there not?

Dr. HUNTER. I know there was a committee appointed, a subcommittee, but the date of that appointment I couldn't tell.

Mr. GESELL. Who was the head of that committee?

Dr. HUNTER. If you mean the head of the committee I have in mind, it was Mr. Murphy.

Mr. GESELL. May I ask if you will step down for a moment while I call Mr. Murphy?

Acting Chairman REECE. Do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MURPHY. I do.

**TESTIMONY OF RAY D. MURPHY, VICE PRESIDENT AND ACTUARY,
EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES,
NEW YORK, N. Y.**

Mr. GESELL. Will you state your full name, sir?

Mr. MURPHY. Ray D. Murphy.

Mr. GESELL. Are you an officer of the Equitable Life Assurance Co.?

Mr. MURPHY. Vice president and actuary.

Mr. GESELL. Do you recall that you were at one time head of a committee to revise practices on optional settlements?

Mr. MURPHY. Yes.

Mr. GESELL. When was that committee appointed?

Mr. MURPHY. According to my best recollection, February 16, 1937.

Mr. GESELL. That was at an intercompany meeting held on that date?

Mr. MURPHY. Yes.

Mr. GESELL. Were you present at that meeting?

Mr. MURPHY. I believe I was.

Mr. GESELL. Will you tell us what took place?

Mr. MURPHY. My best recollection is that in discussing the matter, it was very difficult, with a large group, to consider all possible suggestions for reasonable limitations on these combinations of modes of settlement that would still preserve the essential services to the beneficiaries and yet not go to what a great many people considered a bit dangerous point, and in order to have a working basis that was more practicable, it was felt that if they had a committee, a sub-committee, that they could probably in a more intimate way discuss the matter and get to some sort of recommendations which they could in turn pass over to the group.

Mr. GESELL. You mean that there was such a variety of opinion at the big meeting that it was felt desirable to have a smaller committee which would make recommendations for the consideration of the larger group?

Mr. MURPHY. Yes. As I remember the circumstances, there was a very broad opinion that the companies had gone too far, which was being emphasized by the lowered interest rates and the very rapid increase in the leaving of such funds with the company.

Mr. GESELL. Can you tell us who the other members of the committee were, Mr. Murphy.

Mr. MURPHY. Yes; there was a Mr. Strong; of the Mutual Life; Mr. Marshall, of the Provident Mutual; Mr. Kineke, of the Prudential.

Mr. GESELL. How do you spell that, please?

Mr. MURPHY. K-i-n-e-k-e. And Mr. Laird, of the Connecticut General.

Mr. GESELL. Your committee issued a report, did it not, after studying the problem?

Mr. MURPHY. It did; yes.

Mr. GESELL. I will come to the report in a moment. Will you tell us what type of studies were made in the preparation of this report, just what the committee did, in other words?

Mr. MURPHY. The committee met on two occasions, as far as I can recall, and in the interval considered the various tentative suggestions that had been brought out and consulted with, presumably, those who had intimate contact with the administration of the clauses in connection with the practicability of various solutions that would still appear to serve the essential needs of the policyholders without involving such extensive guaranties that would go not only beyond the life of the insured but also beyond the life of the first beneficiary.

Mr. GESELL. Then after consulting with representatives of the various companies, the report was prepared, was it not, and distributed to the companies which had attended the meetings of the conference?

Mr. MURPHY. Yes; there was an intervening matter, because on the 30th of April 1937 while we were considering this matter, the superintendent of insurance of New York wrote a letter to my company, and I suppose he did probably to five others since he was

suggesting consideration of the same problem, and said that the department was considering the problem and suggested that a good way to begin would be to have technical men from six of the New York City companies consider the matter and then confer with the department. So that that also was taking place at the same time.

Mr. GESELL. Have you a copy of his letter with you?

Mr. MURPHY. I have.

Mr. GESELL. May I see it, please?

Mr. MURPHY. I will be glad to read it if you like.

Mr. GESELL. Very well.

Mr. MURPHY (reading from "Exhibit No. 784"):

The suggestion that I appoint a committee composed of representatives of the life companies and experts of our own department to study the question of policy loans and interest on policy loans has met with general approval. The matter of the numerous options and the guaranteed rate of 3-percent interest has also been brought to my attention with the suggestion that the department study the situation in the light of the preparation of the new code.

If I might interpose there, it will be recalled that the department had appointed Professor Patterson, of Columbia University, to prepare complete recodification of the New York insurance law. They were at work on that problem and his reference here is to whether there should be some changes in the law in order to bring some restrictions on this very question of extended beneficiary provisions. [Reading further from "Exhibit No. 784":]

Since these two subjects are closely related, I shall ask the committee to consider both.

It is my thought that the original committee should be comparatively small, and should be composed largely of technical men; and that, when some tentative recommendation has been agreed upon, we call in the executives of all of the life companies to discuss the situation. The representatives of the department will be Deputy Superintendent Paul Taylor; Dillon F. Broderick, chief of the life bureau; and Mr. Charles Dubuar, actuary. Mr. Gardner, counsel to the department, will also give such service to this committee as may be necessary.

The following companies are requested to designate someone to form the original committee: Metropolitan, New York Life, Equitable, Mutual Life, Home Life, Guardian Life.

It is the understanding that this committee will be enlarged and that all companies will be represented before any definite action is taken.

I wish to thank you for your help and cooperation in this matter.

Mr. GESELL. Who signed that letter, Mr. Murphy?

Mr. MURPHY. It is signed in the name of Louis H. Pink, with some initials under it, but the typist has indicated the initials "L. H. P." so I suppose he dictated it.

Mr. GESELL. Mr. Murphy, I understand that this suggestion which came to your company, and you presume to the other companies, was with a view to making recommendations to the superintendent of insurance for the provisions which might be included in the New York code.

Mr. MURPHY. Yes. I had a subsequent discussion with the superintendent which verified the fact that the question in his mind was whether such provision should be put in because, very obviously, in his opinion, the companies through this, what I may call compounding of beneficiary clauses, had gone further than appeared in his opinion to be good practice, considering the general welfare and safety of the whole body of policyholders.

Mr. GESELL. He was interested in writing provisions into the New York law which would eliminate some of the abuses which he thought might have developed.

Mr. MURPHY. He was until I told him about our meetings and what we were studying and that the problem seemed so complicated that it might be rather difficult to draft statutory provisions which would turn out to be wise, and that it seemed to me that it might be more practicable to let the companies see whether they could not come to a reasonable consensus of opinion as to what limitations would be wise, and then follow that process of, what I may call, voluntary action rather than specific statutes at a time when it is very difficult to tell just what these specific statutes should be.

He thereupon said that he thought that that probably was a satisfactory way to handle the matter, and would I keep him advised as to what the recommendations of this group were, which, of course, I duly did.

Mr. GESELL. In other words, he departed somewhat from the program he outlined in his letter of April 30 at your suggestion in order to see what the companies could work out on their own hook with respect to this problem.

Mr. MURPHY. Yes.

Mr. GESELL. Did you urge upon him that he adopt that procedure?

Mr. MURPHY. I suggested it to him as seeming to me a wise procedure in a very difficult and complicated situation.

Mr. GESELL. Was one of the reasons, aside from the complexity of the situation, Mr. Murphy, the fact that the companies subject to the jurisdiction of the New York commissioner had some concern lest restrictions be placed upon them by the New York commissioner which would not be placed upon companies not under his jurisdiction?

Mr. MURPHY. That was not my concern, if I may speak for myself.

Mr. GESELL. Was it expressed as a concern of anyone at that time?

Mr. MURPHY. I don't recall hearing it.

Mr. GESELL. It certainly is a factor in the situation, isn't it?

Mr. MURPHY. Not necessarily; because if such statutes had been drawn, in view of what I interpreted as a very widespread feeling that there should be further restrictions on this matter, it is quite possible that the companies that might not be subject to the statute might, nevertheless, have done voluntarily the same thing.

Mr. GESELL. It would have been voluntary on their part.

Mr. MURPHY. Oh, yes.

Mr. GESELL. I would like to offer the letter of Mr. Louis Pink, which has been read by the witness, for the record.

Acting Chairman REECE. It may be admitted.

(The letter referred to was marked "Exhibit No. 784" and is included in the appendix on p. 4860.)

Mr. GESELL. I show you a document entitled "Report of Subcommittee Appointed at Intercompany Conference of February 16, 1937, Revision of Practice on Optional Settlements." This is dated May 28, 1937. I ask you if that is a correct copy of the report which your subcommittee issued?

Mr. MURPHY. Yes; that appears to be a correct copy.

Mr. GESELL. I would like to read the first paragraph of the report, which states [reading from "Exhibit No. 785"]:

There is a growing realization that current practices under optional settlements need revision. Many companies now desire to solve the problems of unsound

practice which have been encouraged by unwise competition in the past and greatly accentuated by the conditions of the last 3 years.

You state these problems arise in four directions and refer to the guarantee of interest over a long period, the increased complications of the forms, the experience of the company with life income options, and the great increase in volume, by which I suppose you mean the fact that more and more policyholders have wanted to take advantage of these various modes of settlement in recent years.

Mr. MURPHY. Particularly because where the insured had not a provision put on his policy for such a settlement with his beneficiary, the beneficiaries, having the privilege of taking such settlements voluntarily, were very obviously using present interest conditions as a reason for leaving the sums in that way to a very abnormal amount.

Mr. GESELL. In other words, the guarantee on the interest at that time was in some cases, at least, higher than what was being earned, and therefore they were taking advantage of leaving their funds with the companies?

Mr. MURPHY. Not higher than what was—that is, the guarantee was not higher than what was being earned, if you mean the life insurance companies.

Mr. GESELL. No; I don't mean that. I mean higher than what the policyholder could anticipate earning on the outside.

Mr. MURPHY. Apparently there was great question whether he could earn a satisfactory rate on the outside, and was therefore leaving the proceeds with the company.

Mr. GESELL. Your report recommended, did it not, 11 specific rules, and a supplementary rule in addition?

Mr. MURPHY. Yes.

Mr. GESELL. Now, reading from the last portion of the report, it states, does it not, under the heading [reading further from "Exhibit No. 785"]:

STEPS IN PREPARATION FOR INTERCOMPANY CONFERENCE ON JUNE 3

It represents what the subcommittee considers a very reasonable minimum set of changes required to make progress in approaching a solution of the problems now encountered in optional settlements. In preparation for this conference two important steps are suggested:

(a) Progress can only be made if individual companies are willing to waive small differences in viewpoint because of the much greater advantage which will accrue to all through a sound solution of these problems.

(b) At this stage it is most desirable that each representative come to the conference invested with authority to speak for his company as to its willingness to accept each of the above rules individually, provided that the great majority of the other companies are willing to do likewise.

The changes recommended are for the good of the life insurance business and the benefits of policyholders as a whole. Widely adopted, they would in our judgment have practically no effect on the sale of life insurance or the meeting of legitimate and reasonable needs of clients. Thus our subcommittee strongly recommends them for your consideration.

I offer this for the record.

Acting Chairman REECE. It may be admitted.

(The report referred to was marked "Exhibit No. 785" and is included in the appendix on p. 4861.)

Mr. GESELL. This all seems to be leading up to a meeting on June 3. Was there such a meeting held?

Mr. MURPHY. On June 3, 1937; yes.

Mr. GESELL. Where was that meeting held?

Mr. MURPHY. I think in the office of the New York Life.

Mr. GESELL. Do you recognize this schedule which I show you as a copy of a paper from your files recording who was present at that meeting.

Mr. MURPHY. That looks correct.

Mr. GESELL. There were at least some twenty companies at that meeting, were there not?

Mr. MURPHY. Yes. My impression is there were a little more than that.

Mr. GESELL. I wish to offer this document for the record.

Acting Chairman REECE. It may be admitted.

(The list referred to was marked "Exhibit No. 786" and is included in the appendix on p. 4865.)

Mr. GESELL. What happened at the meeting of June 3?

Mr. MURPHY. This was, of course, a list of recommendations by this small group as to what we would consider minimum practice. There was considerable discussion, as I remember it, of those recommendations, and then there were, I think, one or two minor changes made in the recommendations at the large conference, because of one or two small points that were brought out where we felt that the suggestions could be altered and give a little more service without any serious detriment.

Mr. GESELL. In other words, the recommendations were before each person present at the intercompany conference?

Mr. MURPHY. As I remember it; yes.

Mr. GESELL. They were discussed and considered in a general discussion, and some slight changes in wording were made.

Mr. MURPHY. Yes.

Mr. GESELL. What came out of the meeting, Mr. Murphy? Did they agree to follow the recommendations, or did they indicate that they were not in complete accord with them?

Mr. MURPHY. As I remember it, there was an indication of what might be called rather broad approval of the idea. I think I expressed myself perhaps as well as I could on that in writing to the New York Insurance Department on June 9, where, to quote from my letter, I said:

Naturally not all the companies agreed to all the points, but there was sufficient unanimity to indicate that the program will be largely put into effect by the great majority of these companies.

I think that description to the New York department is a fair résumé of the conferences as I could make.

Mr. GESELL. Was there a vote taken on each of these recommendations, Mr. Murphy?

Mr. MURPHY. I don't remember the procedure—you mean as to whether each one approved or disapproved?

Mr. GESELL. What they would do or wouldn't do; that is correct.

Mr. MURPHY. I doubt if at that time everybody was willing or in any position to commit himself as to whether his company would act upon it or not. It was largely a consensus of opinion. Probably in some cases it did indicate rather definitely that that company would probably do so and so with respect to such and such a point.

Mr. GESELL. In sending out the call for the meeting you requested that each man come qualified to speak for his company and commit his company, did you not?

Mr. MURPHY. Yes. My recollection is as we discuss it that probably the majority of companies were fairly definite in their expression as to what they would undoubtedly do, probably a few companies reserving their opinions.

Mr. GESELL. May I refresh your recollection with respect to this matter of voting from a memorandum from the files of the Connecticut General? It refers to the actions of various companies at the meeting of June 3. It states, for example, under paragraph 1 [reading from "Exhibit No. 787"]:

The share of a secondary beneficiary following a primary beneficiary must be paid in cash at the second beneficiary's death. In other words, stick to "two lives in being" which is all that is permitted in New York and possibly also another State or so.

It says:

Mr. Laird's notes show that of the 25 companies represented at the June 3 meeting, 10 voted "no," and 4 "were on the fence." Such a restriction is in accordance with our present practice.

On another provision he says:

Twenty voted "yes"; 4 voted "no," and 1 was "on the fence."

On the next provision:

Twenty-five voted "yes."

Next,

Twelve companies voted "yes," 3 voted "no," 9 were "on the fence."

Does that refresh your recollection as to what took place at this meeting? There was a vote, wasn't there?

Mr. MURPHY. When you say a vote, of course I don't wish to quarrel about terms, but what is apparently meant in Mr. Laird's letter was not a vote of what a majority would determine, but what each company would do.

Mr. GESELL. You were attempting to find out at the meeting, first of all, how many companies were going to follow each recommendation.

Mr. Murphy. Yes; we would have liked to have known that.

Mr. GESELL. And if that was the purpose, the natural thing to do was to ask them, and whether you call it a vote or whether you call it a consensus of opinion or whatever you call it, the vote is a method of each company expressing what it will do.

Mr. MURPHY. And also, of course, we were very much interested in carrying through on this idea that the companies should pretty definitely do something with respect to these matters, and which opinion, apparently, was very much in the minds of the New York department.

Mr. GESELL. And you came away from the meeting with a feeling that a great majority of the companies would adopt at least some of the recommendations?

Mr. MURPHY. Yes. There would be a tendency in that direction, although not entirely uniform.

Mr. GESELL. I would like to offer this memorandum from the files of the Connecticut General.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 787" and is included in the appendix on p. 4866.)

Mr. GESELL. Following the meeting, am I correct in stating that copies of the revised recommendations were sent to each of the companies?

Mr. MURPHY. That's right.

Mr. GESELL. Do you recognize these two sheets as the revised recommendations?

Mr. MURPHY. Yes; that appears to be the sheet.

Mr. GESELL. I wish to offer these for the record.

Acting Chairman REECE. They may be admitted.

(The sheets referred to were marked "Exhibit No. 788" and are included in the appendix on p. 4867.)

Mr. GESELL. Now may I ask you if you will step down for a moment, Mr. Murphy? I will want you back later on, unless the committee has any questions. (None.)

Dr. Hunter, will you take the stand, please?

TESTIMONY OF DR. ARTHUR HUNTER, CHIEF ACTUARY AND VICE PRESIDENT, NEW YORK LIFE INSURANCE CO., NEW YORK, N. Y.—Resumed

Mr. GESELL. Dr. Hunter, I want to ask you if you recognize these three sheets which I hand you, the first being a letter signed by yourself to Mr. Laird, dated August 6, 1937, as correspondence which you had with Mr. Laird subsequent to the meeting of June 3, which Mr. Murphy has just been discussing. Do you recognize that as the correspondence?

Dr. HUNTER. I do.

Mr. GESELL. I wish to read it for the record, the first being a letter of Dr. Hunter to Mr. Laird, dated August 6, 1937, and stating [reading from "Exhibit No. 789"]:

At the meeting held at my office about 2 months ago with regard to special-settlement agreements practically all the companies stated that they intended to change their practice. If you have issued instructions to your agents on that line, I shall be glad to have a copy of the circular. You already have a copy of our procedure as outlined in my letter of last April.

I take it that meant your company had already adopted the recommendations, had they not?

Dr. HUNTER. No, sir. We had adopted our own recommendations before these came out, and we were not present at that meeting and were not influenced by anything that happened at the meeting.

Mr. GESELL. Mr. Laird's letter to you states [reading further from "Exhibit No. 789"]:

As you know, we are in sympathy with the movement to simplify special-settlement agreements, but we have not yet issued any circular to agents.

We are now working on a proposed announcement, but we should like to be sure that similar action will be taken by a number of companies of about our size. As we recently adopted more conservative settlement options in our new policies, we feel that some of the other companies in New England should take the lead in this other conservative step.

Perhaps another general meeting would clear the air and bring more concerted action.

And your letter in reply to him of August 12 states [reading further from "Exhibit No. 789"]:

Your letter of the 11th instant was duly received.

It is apparent that a number of companies are slow in sending their circulars to the field, although three have told me that they have already put the rule into effect without notification of it. It may be that other companies of your size are waiting for a leader. Why don't you take that position with them?

If there were a request for another meeting I should be glad to call it, but it must be in the form of a "round robin," as there must be no implication that I am asking the other companies to pull our chestnuts out of the fire. We have taken our stand and intend to abide by it whatever other companies may do. Confidentially, our leading agents realized that our action was a proper one, and we are having their support, although occasionally they are finding it very tough in competition.

I offer the correspondence for the record.

Acting Chairman REECE. It may be admitted.

(The letters referred to were marked "Exhibit No. 789" and is included in the appendix on p. 4868.)

Mr. GESELL. I gather from that correspondence, Dr. Hunter, that in spite of this meeting of June 3, at which some rather general opinion was expressed, the companies were not all adopting the recommendations which had been made by Mr. Murphy's committee.

Dr. HUNTER. Yes.

Mr. GESELL. Am I correct in gathering from the last letter which I read that this question of settlement options did have some competitive importance? In other words, that companies with more liberal settlement-option provisions stood, perhaps, to gain in the sale of insurance as against companies which had stricter provisions?

Dr. HUNTER. Yes.

Mr. GESELL. If that is correct, I take it, it is also correct that one of the great interests of the companies attending these conferences was to bring about a uniformity of position on the part of the companies, so that that competitive advantage would not accrue to any particular company.

Dr. HUNTER. To such an extent as it was possible. Quite evidently it wasn't possible from the actions taken by certain companies.

Mr. GESELL. It was not possible at this time.

Dr. HUNTER. As you remember, you read two companies would not definitely make any changes at all; two quite prominent companies.

Mr. GESELL. I have no further questions for Dr. Hunter at this time.

Dr. HUNTER. May I remind you that our company put this program into effect—its own program of restriction into effect—in April 1937; that I had nothing to do with any of the arrangements prior to that time, and that I appeared and acted only as chairman in this matter. My reference to pulling the chestnuts out of the fire, as you can understand, was so that other companies might not feel that I was trying to induce others to do what we had voluntarily done the first in the field.

Acting Chairman REECE. Are there any questions, Mr. Henderson?

Mr. HENDERSON. No.

Mr. GESELL. The next witness is Mr. Marshall.

Acting Chairman REECE. Do you affirm that the testimony you are about to give in these proceedings shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MARSHALL. I so affirm.

TESTIMONY OF EDWARD WAYNE MARSHALL, VICE PRESIDENT
AND ACTUARY OF THE PROVIDENT MUTUAL LIFE INSURANCE
CO., PHILADELPHIA. PA.

Mr. GESELL. Will you state your full name, please, sir?

Mr. MARSHALL. Edward Wayne Marshall.

Mr. GESELL. Are you connected with the Provident Mutual Life Insurance Co.?

Mr. MARSHALL. Yes; as vice president and actuary.

Mr. GESELL. How long have you been with that company?

Mr. MARSHALL. I first became connected with the company in 1911; resigned in 1915; became connected again in 1920.

Mr. GESELL. You were a member, were you not, of the committee of which Mr. Murphy was chairman, which was appointed at the meeting of February 27, 1937, to consider recommendations for uniform restrictions on settlement options?

Mr. MARSHALL. Yes.

Mr. GESELL. I wish to show you a letter dated October 22, 1937, addressed to Mr. Murphy, signed by yourself,¹ and ask you if you recognize that as a letter which you wrote?

Mr. MARSHALL. I wrote that letter.

Mr. GESELL. The letter is marked "Confidential"; is addressed to Mr. Murphy, and states as follows [reading from "Exhibit No. 790"]:

At the intercompany conference on optional settlements, held at Swampscott on October 14, it was revealed that at least two more companies are about to announce rules similar to those discussed at the conference last June. Already at least six companies have adopted the rules, including the Aetna, Equitable of Iowa, Guardian, Metropolitan, New York Life, and Prudential. It is becoming apparent that some such rules are desirable for the good of the business, and that it would be well for the various companies themselves to take measures to eliminate any weaknesses and dangers now inherent in optional settlement practice.

Quite a number of the representatives at the conference indicated the readiness of their respective companies to adopt the rules provided a majority of the companies of their own group did likewise. Some of them however were reluctant to "pioneer" in the absence of definite information regarding the official attitude and intentions of other companies.

Accordingly the conference requested me to send to each of the 27 companies represented a questionnaire, the answers to which would indicate definitely the official attitude of the company on the subject, based on the decision of its interested executives. This questionnaire would be returned to me so that a summary could be made of the attitude of the individual companies and distributed at once to all the companies represented.

The conference also decided that another conference should be held on November 15 in New York City at 10 in Mr. Bassford's office, in order to give what was hoped would be a decisive turn to the whole subject. At that conference each company representative should be empowered to state finally the program of his company in the light of the information derived from the above-mentioned summary. It is also hoped that the subcommittees studying the basis of the life-income option will then be prepared to give a conclusive report for the consideration of the entire group.

In accordance with this plan, please return one of the enclosed questionnaires to me before November 3 in order that the compilation of the answers may be made and forwarded to you well in advance of the meeting on November 15. Your cooperation in returning the questionnaire by that date will be greatly appreciated as you can see that the compilation itself will require considerable time.

¹ Subsequently entered as "Exhibit No. 790." See appendix, p. 4866.

Now, that letter refers to an intercompany conference on optional settlements, held at Swampscott on October 14. I take it you were present at that conference, were you not?

Mr. MARSHALL. Yes.

Mr. GESELL. Will you tell us what the discussions with respect to optional settlements were at that conference, who called it, and so forth?

Mr. MARSHALL. In order to explain that, it will be necessary to give the background of our own company, the Provident Mutual, and a good many other mutual companies which had the same problem. Our company was mutual. It had no stockholders; its only interest in determining questions such as this was to try to make each group work as nearly as possible for the benefit of the whole group of policyholders. We had no desire to discriminate in favor of one group and thereby throw a heavy burden of cost on the other group.

For years the Provident Mutual had been interested in a conservative attitude toward optional settlements practices, dating far back beyond the 1935 date mentioned in the testimony earlier. In fact, I think it was about 1920 that one of our representatives was present at a conference of lawyers at which this subject was discussed.

It was recognized then that the trust-company problem would become very important in the life-insurance business if allowed to get out of hand. Accordingly some rules were then adopted, but as the volume of this optional settlement business was so small then, they did not get very much attention. A few companies adopted some rules, some of which appear in these rules which have been referred to in this hearing. However, the matter more or less drifted with, as I say, some conservatism on the part of companies but a good variance in practice.

But when the conditions of 1932 to 1935, of which you have heard, came along, it was quite obvious that for the good of the business, which after all means in a mutual company the good of the general body of policyholders, that something must be done because this optional settlement business was not only in itself causing grave complexities far beyond the policy contract, which seemed uncalled for to these mutual companies, but it was throwing a burden of cost on the general body of policyholders for the benefit of the relative few, and it seemed wise to get a scalpel and cut off some of this growth which had occurred outside of the policy contract and which, in the minds of many, had no place there.

Mr. GESELL. Those are the factors—

Mr. MARSHALL (interposing). May I go on, please?

Mr. GESELL. Just a minute, please. Those were the factors which were discussed in some detail in Mr. Murphy's report, were they not?

Mr. MARSHALL. I am giving this background to explain why I became sort of a clearing house for this conference.

As I stated, our company had been conservative on this subject, relatively so, along with many others; and it saw clearly the dangers. As far back as 1932, I think it was, I corresponded with a number of companies, some 20 companies, as I recall, in regard to at least one of the rules which were later adopted. It happened to be one of my interests and ultimately that rule was adopted because it seemed the only sound rule—it was rule 4, I believe—which gave protection to

the general body of policyholders against what we call in our business the antiselection made by a few at the expense of the many.

Well, then this matter began to drift in 1937, as you have heard. Six companies, I believe, over the summer of 1937 had adopted rules. There was a good deal of discussion and a feeling that it was important, but companies were not acting. It was my own personal feeling that it was for the good of the policyholders generally, that there should be a lopping off as far as possible of these abuses which, in my mind, has constituted almost discrimination certainly in extreme forms. So that at the Swampscott meeting Mr. Larus, the vice president of the Phoenix Mutual, and myself went around and personally suggested to a lot of actuaries that we get together and discuss this subject. So we met.

MR. GESELL. What was the Swampscott meeting, Mr. Marshall? Was that a meeting of the Actuarial Society?

MR. MARSHALL. Yes; I should have explained that. A meeting of the Actuarial Society of America. Its regular semiannual meeting was at Swampscott and we were together for the general purposes of the Actuarial Society, and it had been in my mind for several days before that, if the opportunity arose, we might bring up the subject of optional settlement abuses.

MR. GESELL. And you and Mr. Larus arranged a special conference of interested actuaries on this subject of settlement options.

MR. MARSHALL. As I recall, we suggested to the actuaries present of about the 25 or 30 largest companies, approximately the same group that had been meeting from time to time in the past, that they meet together and discuss this pressing problem.

MR. HENDERSON. May I ask the witness a question, Mr. Gesell? You used the word "discrimination." In what way were the differences in rates discriminatory and against whom did they discriminate?

MR. MARSHALL. Well, it seemed to many of us, and I think "many of us" is correct, that if we have an unreasonable extension of a practice outside of the terms of the policy contract, and that is very important to understand, and that extension involves undue expense or undue risk, that it would be very proper, perhaps not legally but certainly from the standpoint of mutuality, in which our company is interested, to consider the practice to involve discrimination and to get rid of it.

MR. HENDERSON. Where is the discrimination? Is it of one policy against another, or the policies of one company being more liberal and discriminating against another company's policies?

MR. MARSHALL. I heard of one case told me personally by the actuary of another company illustrating this discrimination idea where the possible combinations of contingencies in that one agreement were 68,000, and it seemed to us that a thing like that is unreasonable and should be just sliced off.

MR. HENDERSON. Unreasonable against whom?

MR. MARSHALL. It was unreasonable to the general body of policyholders to have this fungus growth creep in and cause them all expense and possibly loss and possibly even, under extreme circumstances, impairment of safety.

MR. HENDERSON. I gather from that that you mean that one company's policy which had multiple provisions discriminated against

the whole body of policyholders regardless of what company they were in.

Mr. MARSHALL. I didn't refer to intercompany conditions. I referred to intracompany.

Mr. HENDERSON. That is what I am trying to get at.

Mr. MARSHALL. However, I am perfectly willing to volunteer that even in the intercompany situation we must remember that the life-insurance business extends over the whole country. The Provident Mutual, for example, has policyholders who are also policyholders in many other companies, and if some company follows an utterly unsound and losing practice and grants to certain policyholders something outside the reasonable terms of the contract—something which will involve that company loss, then that policyholder may come to the Provident Mutual and say, "Look here, unless you follow this same practice"—which we considered unreasonable—"I am going to drop my policy with you because you are a short-sighted company," or some such language, and the policyholders did get that idea, perhaps, "I will drop my policy with your company because you don't consider the interests of the policyholders."

Now, the point is there. If a company perhaps unknowingly embarks in an area where loss is involved to its policyholders ultimately, we consider we have enough of an interest in the whole problem to call that matter to that company's attention. There is the situation.

Mr. HENDERSON. Where the discrimination takes place against other companies, that is the situation.

Mr. MARSHALL. I am not suggesting there is any discrimination intercompany at all. It is just intracompany I was discussing.

Mr. HENDERSON. But it is against the other policyholders or all policyholders, I think you make your point.

Mr. MARSHALL. No; it was the policyholders of our own company. An abuse which would favor one unduly or unreasonably outside the terms of the contract against the whole body of our policyholders, I consider discriminatory and against the principles of mutuality.

Mr. HENDERSON. You mean the mutuality of an individual company.

Mr. MARSHALL. The mutuality of an individual company.

Mr. GESELL. In other words, Mr. Marshall, what you mean is that in your own company some policyholders had contracts with settlement options, some did not. If those settlement options were disadvantageous, then all of the policyholders would be harmed by their existence.

Mr. MARSHALL. Of course, in the past we have issued settlement options in policies and because of changing conditions some of them perhaps are no longer self-supporting. Those are closed contracts and there is nothing we should properly do about them, and we, of course, adhere to them and go right along. That is part of the business. But for us to go outside the terms of our policy contracts and more or less gratuitously enter this field in an uncalled-for manner, an unreasonable manner, seems to us to be violating the principles of mutuality as we saw them.

Mr. GESELL. Had your company changed its practice on October 22, 1937?

Mr. MARSHALL. A good many of the rules we had in effect before, and some we adopted then, or approximately then.

Mr. GESELL. Had you adopted all of the recommendations of Mr. Murphy's committee by October 22, 1937?

Mr. MARSHALL. We never adopted all of the recommendations.

Mr. GESELL. How many had you adopted by October 22?

Mr. MARSHALL. Before that date, you mean?

Mr. GESELL. Yes.

Mr. MARSHALL. Approximately six, to some degree or other.

Mr. GESELL. You, yourself, had been a member of the committee which had recommended all 12 of those provisions, had you not?

Mr. MARSHALL. That is quite true.

Mr. GESELL. Was the fact that your company had not adopted all of the recommendations partly attributable to the fact that other companies in which you were in competition had not adopted them?

Mr. MARSHALL. The reason we did not adopt all those rules is because we felt that under certain sets of circumstances it was reasonable for us to provide certain arrangements which were wholly excluded by those rules, and which we partially wished to include. We did, of course, discourage our agents from engaging in some of the more extreme practice against which the rules were directed, and we have continued that. However, they are a very minor phase of the situation.

Mr. GESELL. I wish to offer the letter of October 22 for the record. Acting Chairman REECE. It may be admitted.

(The letter referred to was marked "Exhibit No. 790" and is included in the appendix on p. 4869.)

Mr. HENDERSON. May I ask one more question on that? I gather that in your discussion with some of the other actuaries of the possibilities of combinations running as high as 68,000, you were convinced that that had run riot. In other words, you felt that you ought to call that to the attention of actuaries of other companies engaged in the liberalization of their terms.

Mr. MARSHALL. That is true. Undoubtedly the attitude of companies differs regarding the importance of various features, sometimes because they haven't been observing them, and sometimes because they happen to have a peculiar situation where they don't have many such cases in their own company.

Mr. HENDERSON. And you would try to show them that would do the whole body of policyholders some damage if it were continued. Certainly there has got to be some limit, you feel, to the number of combinations.

Mr. MARSHALL. We were working from our own company viewpoint, naturally. In our own viewpoint we were quite convinced that the fabric as a whole was too extreme and being outside the policy contract we thought it reasonable it could be curtailed for the good of the general body of policyholders.

Mr. GESELL. Your letter of October 22, 1937, stated in the second paragraph that quite a number of the representatives indicated their readiness to adopt the rules, provided a majority of the companies of their own group did likewise,¹ and the questionnaire you sent out attempted to find out from each company what other companies would have to adopt the rules before it would go along, did it not?

¹ "Exhibit No. 790," appendix, p. 4869, at p. 4869.

Mr. MARSHALL. My questionnaire asked regarding the attitude or intention of each company, and not its final conclusion. Each company followed its final action individually.

Mr. GESELL. Did not your questionnaire contain this statement: "State the companies you consider to be in your group for the purpose of giving the above answers,"¹ and those above answers will be what the attitude of the company is with respect to each rule?

Mr. MARSHALL. Quite true.

Mr. GESELL. So you were attempting to find out, were you not, from each company what other companies in its group would have to adopt the same rules before it would go along?

Mr. MARSHALL. Not necessarily, because companies sometimes follow practices regardless of what they had indicated in a preliminary way was their hope would happen. This, may I volunteer again, was a sounding board which I set up, this questionnaire, to try to get each company to state its attitude. That was a device which I thought was very effective in getting them to state their attitude.

Mr. GESELL. I think so too, Mr. Marshall. The only thing I am getting at was why it was effective. Was it not because it enabled a company to commit itself, at the same time reserving its opportunity to adopt the rules with other companies of its same size operating in its same level?

Mr. MARSHALL. I think it was simply a device which I used, which if they did answer "yes," which after all had no final binding effect on them, and if other companies also answered "yes," it would give them courage to go ahead on their own individual hook and cut out this abuse which existed.

Mr. GESELL. You recognize this document, marked "Very confidential," as a summary of the replies to the questionnaire.

Mr. MARSHALL. I am not sure about this handwriting in here, but otherwise it seems to be the one I sent out.

Mr. GESELL. Reading from the typewritten part, under the heading of "Companies in Same Group," I notice that some companies say that their decision was made irrespective of the action that any other company will take or may propose to take, but here, for instance, the Berkshire Life says: "Based on general agreement by majority of companies."

The Imperial Life says: "Canadian companies."

The Northwestern says: "All companies participating in conference."

The Penn Mutual says: "The Junior Presidents' Association companies and Northwestern Mutual."

Those were replies of companies indicating who else would have to go along with these rules before they would be adopted by the respective companies answering the questionnaire; were they not?

Mr. MARSHALL. Not necessarily. No company had to go along for any other company to adopt any rule it saw fit.

Mr. GESELL. Of course not, but that was not an answer to my question.

Mr. MARSHALL. I thought you said "have to."

Mr. GESELL. Is it not a fact that what you were trying to do here was to get together an expression from each company as to whether

¹ "Exhibit No. 790," appendix, p. 4869, at p. 4870.

it would adopt the rules, always contingent upon the adoption of those rules by certain companies that they would designate on their questionnaire reply?

Mr. MARSHALL. I was trying to get from each company an expression of its attitude regarding those rules.

Mr. GESELL. And one of the factors involved in the expression of their attitude was the possible adoption of the rules by other companies who they considered to be, as you call it, companies in the same group.

Mr. MARSHALL. That was my phraseology, if you remember. I put that in to sort of make a sounding board, as I said before, in order to induce them to express themselves in some way.

Mr. GESELL. Let's find out what you meant. The Provident has down in its questionnaire reply, "Mutual companies size of Home Life or greater." What do you mean by that?

Mr. MARSHALL. I will be very glad to explain that. I can't speak for the other companies but I can speak for the Provident as to what it meant. As I said before, we were looking at this from the mutual standpoint. We had no desire to have our general body of policyholders discriminated against by uncalled for abuse which had grown beyond reasonable bounds. That is the general fabric. And we were attempting to slice off the unreasonable part of that abuse, and by various means minimize it to a proper area. We were interested in what other companies did, naturally. We are interested from many viewpoints in what other companies do. In the first place, realistically we are in a very competitive business and we want to know what our competitors do, and it is very nice to know what they plan, but that is only the beginning of the story. We always keep up with competitive developments, wherever they go, but we are also interested in what our competitors do because if they engage in practices which, let us say, involve heavy loss to their company and our own policyholders come to us and ask us to do likewise, because they have policies in the other company and in ours and want the same sort of agreement attached to our policy, and demand it almost, as it were, as their right because this abuse is done by the other company, we are very much interested to try and let that company see the true situation, realize the abuse and get out its own surgical knife and do whatever it thinks necessary.

Furthermore, when we said "the Home Life and larger," that was merely an illustrative statement of what we hoped might happen as the result of this matter being called to the attention of the different companies. When we said that it did not bind us as to our future course of action in any way. We could change our mind at any time in regard to that, or as a matter of fact regarding the annuity premiums or any other feature.

Mr. GESELL. Let's keep to the issue.

Mr. MARSHALL. That is right; I was interjecting and explaining what this means. Therefore, when we said that, we can always change our mind regarding optional rules; we could tomorrow, any time we want, if we think it is safe for our policyholders and in accord with the principles of mutuality.

Mr. HENDERSON. That is true of any agreement which doesn't have any sanctions, isn't it, Mr. Marshall?

Mr. MARSHALL. I am not a lawyer.

Mr. HENDERSON. I mean any kind of an agreement entered into, in which there is no penalty and no compulsion of law, is a voluntary agreement; each member is free, of course, to abandon that or modify the general terms of the understanding or the uniformity whenever he wants to.

Mr. MARSHALL. But this was not an agreement in that sense. This was a consensus of opinion, as has already been expressed this morning. In other words, this was the attitude—

Mr. HENDERSON (interposing). The difference between a consensus and an agreement is pretty small, it seems to me. Certainly the questionnaire you sent out showed, as you have testified, a tremendous range of difference, and your hopes, as you have expressed them, were that they would see the error of their ways and would use the knife and cut off some of those. That is, common agreement or consensus shows a tendency toward uniformity, doesn't it?

Mr. MARSHALL. Not at all, because each company could follow its own way at the conference, and after that, and today. It is purely a matter of whether the company considers it safe and sound for its general body of policyholders to follow this practice.

Mr. HENDERSON. That is why you are doing it?

Mr. MARSHALL. And it has nothing to do in the last analysis at all with the other companies. It has to make its own decision.

Mr. GESELL. Mr. Marshall, I am going to get an answer to my question if I have to stay here all afternoon. My question was, Why was it necessary to include in this questionnaire at all any reference to other companies in the group which would have to adopt the rules to make the attitude of the particular company answering the questionnaire binding?

Mr. MARSHALL. Mr. Gesell, if you will phrase your question in a way in which the words "binding" and "have to" are excluded, I will be glad to answer it.

Mr. GESELL. Let us get at it this way: Do you recognize this letter of November 9, 1937, signed by yourself, to Mr. Murphy as a correct copy of a letter which you wrote? ¹

Mr. MARSHALL. Yes.

Mr. GESELL. This letter was a letter which was sent and states to Mr. Murphy [reading from "Exhibit No. 791"]:

The information received regarding the attitude of your company toward the proposed optional settlement rules has been included in a summary of the returns from the various companies enclosed herewith as promised.

That is the summary which we have been talking about, is it not?

Mr. MARSHALL. I believe so.

Mr. GESELL [reading further]:

As previously indicated, an intercompany conference will be held at 10 o'clock on Monday, November 15, in the office of Mr. Bassford, actuary of the Metropolitan Life Insurance Co., 1 Madison Avenue, New York City. One actuary from each company is invited to be present, as usual. It is assumed that your company will be represented, but if this should not be possible will you please wire me to facilitate arrangements for this meeting?

¹ Entered later as "Exhibit No. 791." See appendix, p. 4871.

Then, this is the paragraph I want to call to your attention [reading further]:

It is important that representatives should come to the conference empowered to state the official attitude of their respective companies in the light of the information given in the summary of the questionnaire.

Mr. MARSHALL. I hoped that would be done.

Mr. GESELL. Now, one of the bits of information included in that summary of the questionnaire was a statement by each company as to what other companies would have to adopt the rules before their attitude would be an attitude which we would actually undertake from a practical point of view. Isn't that true?

Mr. MARSHALL. No. Companies went ahead sometimes and adopted rules when the other companies didn't adopt them.

Mr. GESELL. Your letter of October 22, 1937, states [reading from "Exhibit No. 790"]:

Quite a number of the representatives of the conference indicated a readiness of their respective companies to adopt the rules, provided a majority of the companies of their own group did likewise.

That is rather specific, "provided a majority of the companies of their own group did likewise."

Mr. MARSHALL. I think that angle needs a little further explanation which I haven't completely brought out, that the companies were always anxious, in a field such as this, where loss to the general body of policyholders was concerned, to see the abuse eliminated from the insurance fabric, and as I said, one of their main concerns was because the policyholders who have policies in various companies, including their own, put a wrong interpretation when they failed to act.

They also are very anxious to see pressure from uninformed individuals, who felt that some companies should follow this abuse because another company followed it—they wished to see that sort of pressure eliminated. It could not be eliminated except by the individual action of each company, and when I wrote these letters I was perhaps trying a little bit of salesmanship, but I was very anxious personally to see that the companies would eliminate this abuse.

Now, in phasing the whole thing that way, I wanted to get each company to state its own attitude, and if a given company knew that there was a strong body of professional sentiment in the business, it could go to its own executives and perhaps sell the ideas to them more effectively than otherwise, because you must remember that there was a great deal of what you might call dislike to change in any such field as this. Administrative problems would be magnified by two sets of rules, one old and one new; agents would be confused by the change in their methods; and it was unsatisfactory, and executives generally were reluctant, naturally, to change unless it was very obvious that it was a sound and wise procedure, and I sought by my method to bring out a show of strength of sentiment. There was, frankly, a little bit of salesmanship to put each actuary in such a position that he could go to his executive and sell the matter more effectively.

Mr. HENDERSON. You wanted him, also, to sell to his executive the idea that the other members of the group would go along too, didn't you?

Mr. MARSHALL. It was very natural for the executive to ask, "Well, now, are we going to have all our policyholders jumping on us because we are the only one in the country recognizing this abuse?" He would be reluctant to act. After all, this was a device to dramatize the matter quickly, to act as a sounding board; and frankly, I hoped to make the companies—or let the companies—see the importance of this in, you might say, a concentrated way. They had already had it brought to their attention in various ways, and this was a device to concentrate it, and I hoped to make them all feel interested personally in arriving at a solution inside their own walls.

Mr. HENDERSON. That's right; to get group action on it.

Mr. MARSHALL. No group action; excuse me. There never was any group action as such.

Mr. HENDERSON. Group action doesn't have to be 100 percent, does it, Mr. Marshall? Certainly some action took place, and you had something in mind in wanting, as you have said, to get this information so that they could go to their executives and say, "The other companies in our group are prepared to adopt this also." That was a consideration, wasn't it? I gathered that from your testimony.

Mr. MARSHALL. As I said, it was my method of trying to get them to see the importance of it. If you will notice, these are my letters you are reading from.

Mr. HENDERSON. I do notice that, and that is why I can't understand you when you say one time you did want to eliminate these abuses, and then you shy away from any idea that you wanted common action.

Mr. MARSHALL. I said at the beginning I hoped it would induce each one to adopt something like the rules, but—

Mr. HENDERSON (interposing). I think that is Mr. Gesell's point.

Mr. MARSHALL. That was my hope. Each one had to act on his own initiative, though, in all these conferences. As a case in exact point in the memorandum of the intercompany conference of October 23, 1935 ("Exhibit No. 768"), where Provident said "Yes," they would do something if assured that certain other companies would so do. If you refer to what happened, you will find that Provident went ahead and did it anyhow. This "only if" business doesn't apply. These "if others" ideas do not mean "only if." The practice simply is a sounding board, and each company ultimately, in the light of the information, acts individually, and it can at any time reverse its action if it wants to.

Mr. HENDERSON. You are not making a distinction which is very clear, I think. One is this idea that one would go along if the others were going along, and then the individual action that took place afterward.

Mr. MARSHALL. What I am really getting at is this whole device in my company is pretty much the same as any of these other devices used at the intercompany conferences to get an expression of sentiment or attitude regarding the individual companies' ideas.

Mr. HENDERSON. And that should decide.

Mr. MARSHALL. No.

Mr. HENDERSON. Why do you go about getting it? Your own testimony says you wanted to induce them to take action to eliminate these abuses.

Mr. MARSHALL. But the point is, the companies had to take it on their individual initiative. I don't know how many and I never asked to find out. I said I hoped that they would come prepared to state the attitude of their company. I know that some didn't and I don't really know how many.

Mr. HENDERSON. Again you are making a distinction as to whether they arrived at some general uniformity of consideration and also whether they carried that out to the last penny's worth.

Mr. MARSHALL. There is no uniformity. Excuse a homely simile, but I have felt about a lot of these things that we have been talking about here the last few days, including this, that they have about as much significance as six roosters crowing at sunrise. It is the sunrise that is the force that causes these things, and not the roosters.

Mr. HENDERSON. Let's see. There is an inevitability about the sun rising, but there isn't any inevitability about you and some of the others on your own initiative deciding to get a consensus and trying to iron out these things. There is a man-made action there. Somebody took a very definite action to try to bring the common experience together in the form of a table, hoping it would lead to some kind of reduction of abuse. There isn't anything systemic about that.

Mr. MARSHALL. You are speaking about the general premium rate proposition, and the premium rate proposition was affected by the fact, sometimes, not that there was the slightest desire for uniformity, but the fear of consequences if a company undersold the investment market, lost money for its policyholders, and had clients come in to beat the band and pyramid their purchases because the company was selling below the market. I am speaking of the investment market.

Mr. HENDERSON. That happens because of a lack of uniformity; doesn't it? Take your 68,000 permutations and combinations. That was a lack of uniformity, wasn't it?

Mr. MARSHALL. I don't know what that was. It was an absurdity.

Mr. HENDERSON. In terms of mathematics, wouldn't an absurdity be classified as something that was not a uniform practice?

Mr. MARSHALL. It was certainly an extreme case.

Mr. HENDERSON. That's right; and you wanted to get it down so that it was nearer the general level of things.

Mr. MARSHALL. I didn't want discriminatory practices of this unreasonable type indulged in at the expense of the general body of policyholders.

Mr. HENDERSON. I think you have said that in various forms six or seven times.

Mr. MARSHALL. After all, it was the guiding principle.

Mr. HENDERSON. I have no doubt but that it was the guiding principle. We are not quarreling with the guiding principle. What we are trying to get at here is whether or not you and 6 other actuarial roosters came together, took some action, which was not like the rising of the sun, and proceeded to crow about it until 21 others joined you. Then you worked toward achieving uniformity.

Mr. MARSHALL. Well, now, to get back to your question, the Provident Mutual said "Yes" to a lot of these, and six of them the Provident Mutual had already enforced in its rules.

Mr. HENDERSON. What rules?

Mr. MARSHALL. The rules suggested to practically—

Mr. HENDERSON (interposing). That's right; which involved a change, did it not?

Mr. MARSHALL. It did not involve a change. We went ahead and continued the rules and hadn't the slightest intention of withdrawing them, although we had used them before and after the conference.

Mr. HENDERSON. Did you make any changes?

Mr. MARSHALL. I am not quite sure. I had better not say, but I think in another sense we went ahead anyhow.

Mr. GESELL. Now I would like to offer for the record the letter of November 9, to which Mr. Marshall referred.

(The letter referred to was marked "Exhibit No. 791" and is included in the appendix on p. 4871.)

Mr. GESELL. Will you tell us what happened in the conference at Mr. Bassford's office on November 15, 1937?

Mr. MARSHALL. Yes. The purpose of the conference was to consider the rules further, because there has been some slight suggestions, as I recall, as to the meaning of the rules, and then to finally get each company to consider them further in the light of the information I had furnished them previously.

Mr. GESELL. Now, as a result of the conference, am I correct in saying that the results were modified to some extent, and a new schedule, showing the attitude of each company with respect to each proposed rule, was prepared?

Mr. MARSHALL. There were a new set of recommendations prepared, and a new schedule showing the attitude of each company.

Mr. GESELL. Do you recognize the document which I hand you as containing revision of the recommendations, together with your covering letter, and the final position of each company with respect to those rules?

Mr. MARSHALL. The final attitude of each company is expressed there, but subject to its consideration when its actuary got home.

Mr. HENDERSON. As I gather, it didn't take place, but it was all for the good of the policyholders just the same.

Mr. MARSHALL. Every bit of it.

Mr. HENDERSON. But it didn't take place, though.

Mr. MARSHALL. I'm sorry; I don't understand.

Mr. HENDERSON. There were some revisions. Are we agreed on that?

Mr. MARSHALL. I think there were some slight revisions; yes.

Mr. HENDERSON. Did they tend toward uniformity?

Mr. MARSHALL. I think that the rules were amended, as I recall, to lop off one or two of the most extreme extensions—we might say limitations—where various legal departments thought that the policyholders' reasonable requests would be denied.

Mr. GESELL. May I offer the document recognized by the witness a moment ago for the record?

Acting Chairman REECE. It may be admitted.

(The documents referred to were marked "Exhibit No. 792" and are included in the appendix on p. 4871.)

Mr. GESELL. Mr. Marshall, I want to call you back in a moment. Will you step down for a moment, please?

Mr. Murphy, will you take the stand again, please?

TESTIMONY OF RAY D. MURPHY, VICE PRESIDENT AND ACTUARY,
EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES,
NEW YORK, N. Y.—Resumed

MR. GESELL. Mr. Murphy, I show you what purports to be a memorandum initialed by yourself, to W. G. Schelker, vice president, re Modes of Settlement, dated November 16, 1937, and ask you if you recognize that memorandum.

MR. MURPHY. Yes; I recognize it.

MR. GESELL. I wish to read this memorandum for the record [reading from "Exhibit No. 793"]:

At an intercompany conference yesterday for the purpose of stimulating the adoption of settlement rules by additional companies, there were a few changes made in the rules to make possible wider adoption.

There was added at the end of rule 1 "or in continuation of installments certain, with the exception of a class of children of parents within the limitations of rule 6."

Your memorandum goes on to record a similar change in rule 4, and the last paragraph states:

At the conclusion of yesterday's meeting it appeared, confidentially, that quite a number of additional companies would follow these new practices either in whole or in part.

Mr. Murphy, I want to call your attention to a handwritten note contained in the lower left-hand column of this document. Will you read that note for the committee, please?

MR. MURPHY (reading):

Told W. G. S. re understanding that a company subscribing to rules need not feel bound in competition with a "no" company.

MR. GESELL. That is initialed by you, is it not?

MR. MURPHY. It is.

MR. GESELL. Who is W. G. S.?

MR. MURPHY. The gentleman to whom the memorandum is addressed.

MR. GESELL. He is vice president of the Equitable?

MR. MURPHY. That is right.

MR. GESELL. That notation indicates to me that these rules that you were attempting to reach uniformity on at this meeting and previous meetings, were rules which would apply only among other companies which also agreed to them, and you had an understanding if you were in competition with some company which hadn't agreed to follow a certain rule, you wouldn't have to agree to it.

MR. MURPHY. I asked in the conference, which may have been academic, as far as I know since it was academic, and that was whether, if a company said "Yes" to a certain practice and then should on a particular case be competing with a "no" company, and should act in the same way as the "no" company, whether we were to consider that it was throwing over its intention with respect to its practice. There wasn't any discussion, particularly, of the point, except that most people seemed to think that that wouldn't be taken as rescinding its prior general action. As I say, the question, as far as I know, was academic, because I haven't heard of any such cases.

Mr. GESELL. In this case you told this vice president of your company, re understanding that a company subscribing to rules need not feel bound to competition with a "no" company.

Mr. MURPHY. I mean, bound by its own prior answer as to what it was going to do on that point.

Mr. GESELL. So that if, for the sake of uniformity, it said "Yes," and ran into a fellow not following a particular rule, it could depart from its previous commitments.

Mr. MURPHY. It could, apparently without changing its general practice, if it wanted to.

Mr. GESELL. I wish to offer it for the record.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 793," and is included in the appendix on p. 4872.)

Mr. HENDERSON. What you are saying is that you understood at this meeting that certain companies were answering "Yes," and that there was an understanding that the companies were subscribing to rules, and that was one transaction. And I gather from your half-facetious remarks, you found out later, although some of them might have said "Yes," in reality they said "No."

Mr. MURPHY. I merely asked the question so if it came to my attention that there was such a case I would know how to interpret it. For example, a man might have an old policy and be taking a new policy in another company. He might, if that were a so-called "no" company, have had a certain extension of this particular clause on that policy, and then come back and plead very hard for you to put it on that individual policy in your company, so that his settlement might be uniform under all his insurance. There might be such a case, and somebody might feel, under the circumstances, that he wanted to make some kind of exception.

Mr. GESELL. In other words, this whole question of settlement options was a pretty ticklish one, from a competitive point of view.

Mr. MURPHY. In a small percentage of the business, because of these insurances that were in two companies, and the man wanted to get the same settlement on all insurance in both companies.

Mr. HENDERSON. He wanted to get the better settlement; yes.

Mr. MURPHY. What he thought was the better settlement.

Mr. HENDERSON. The better settlement for him individually.

Mr. MURPHY. A longer guaranty in some instances.

Mr. HENDERSON. So if he had policies in two companies, and one seemed to him more liberal, if the other didn't meet that competition, he would take his business over to the other company.

Mr. MURPHY. He might.

Mr. HENDERSON. It was a competitive matter in a number of instances.

Mr. MURPHY. Yes; in those instances.

Mr. HENDERSON. Were you worried that that kind of thing would expand and come to be a large part of the transactions?

Mr. MURPHY. Well, I had the feeling that in past years these extremely extensive clauses had grown very largely in that way, so it was a point to be considered if there was any danger of that history being repeated.

Mr. HENDERSON. Were they growing? Was the number of permutations and combinations growing?

Mr. MURPHY. They had been growing pretty steadily by a process of attrition of that kind over a great many years.

Mr. HENDERSON. By attrition?

Mr. MURPHY. What I mean is by individual cases coming up in which a company decided to go a little bit further than it had before.

Mr. HENDERSON. The company was the subject of the attrition, not the policyholder?

Mr. MURPHY. Oh, yes.

Mr. HENDERSON. The policyholder was getting more for his money, wasn't he?

Mr. MURPHY. Longer guaranty; yes.

Mr. HENDERSON. Well, if he got a longer guaranty, wasn't he getting more for his money?

Mr. MURPHY. Well, it depends how circumstances would turn out, because the guaranty is only part of the story. It might be that the excess interest—

Mr. HENDERSON (interposing). Between long guaranty and short guaranty, which would you personally prefer to have?

Mr. MURPHY. Long guaranty and short guaranty? I would take the long one, probably.

Mr. HENDERSON. Probably?

Mr. MURPHY. It depends where it was.

Mr. HENDERSON. Some time in the course of these hearings, Mr. Gesell, there will be a direct answer of "Yes" or "No." At that point I will buy a drink.

Mr. GESELL. I think this is a good time to stop, if the committee please.

Acting Chairman REECE. The committee will stand in recess until 2:30.

(Whereupon, at 12:25 p. m., a recess was taken until 2:30 of the same day.)

AFTERNOON SESSION

The hearing was resumed at 2:30 p. m., upon the expiration of the recess.

Acting Chairman REECE. The committee will please come to order.

Mr. GESELL. Will you resume the stand, Mr. Murphy, please?

Just before the recess we had discussed the meeting of June 3, 1937, I believe. I wanted to ask you first whether you reported the results of that meeting to the superintendent of insurance of New York?

Mr. MURPHY. I did.

I will be glad to put into the record the correspondence, my letter to the department of June 9, and the acknowledgment from the department of June 10.

Mr. GESELL. Could you read that correspondence for us, and we will put it in the record?

Mr. MURPHY. Yes. On June 9 I wrote to Mr. Hollenberg, who is associate actuary of the New York Insurance Department [reading]:

In accordance with your letter of June 4, and our telephone conversation today, I am sending you four copies of the list of restrictions which were the subject of discussion by representatives of about 25 companies last week.

Naturally not all the companies agreed to all points, but there was sufficient unanimity to indicate that the program will be largely put into effect by the

great majority of those companies. We are expecting that announcement will be made by the various companies within the near future.

Since I talked to you I was speaking with Mr. Taylor on the telephone, and he suggested that he would get one of the enclosed copies from you.

Then Mr. Hollenberg's acknowledgment [reading]:

DEAR MR. MURPHY: I am in receipt of your letter of the 9th instant, with enclosures, and note your remarks regarding the difficulty of securing full agreement of the various companies. One copy of these recommendations has been referred to Deputy Superintendent Taylor and, in the meantime, I expect to see you in the conference to be held tomorrow.

MR. GESELL. Now did you acquaint the insurance department with the subsequent meetings which were held and the revision of the recommendations which were made as a result of the meeting of November 15, 1937?

MR. MURPHY. No; those were very minor revisions and no special steps taken at that time, other than, of course, the appearance in the trade papers of such announcements by companies.

MR. GESELL. Did you advise him that there was an understanding that the rules would not be applicable where a company was in competition with a "no" company?

MR. MURPHY. No.

MR. GESELL. Did all the New York companies agree to these rules?

MR. MURPHY. There was a certain amount of variation in agreements. I don't know as I can readily supply the New York companies.

MR. GESELL. There were some New York companies that did not agree, were there not; companies doing business in New York?

MR. MURPHY. Oh, companies doing business in New York, yes.

MR. GESELL. And once in a while an individual company would change the position that it had taken in connection with the conference, would it not?

MR. MURPHY. It might change its position slightly in detail.

MR. GESELL. So that it is safe to say, is it not, that if these rules had been written into some New York code along the lines that the insurance commissioner had in mind originally, the practices would have been more closely adhered to?

MR. MURPHY. Probably; yes.

MR. GESELL. In other words, your form of voluntary agreement, as we have been calling it, didn't have the same rigid sanctions that would have been present if the commissioner had continued along the lines he suggested at the outset?

MR. MURPHY. Of course, the companies would have had to keep within the boundaries of the law if it had passed; some of these, of course, might have limited themselves to something less than the boundaries of the law, possibly.

MR. GESELL. Did the New York commissioner or his representatives attend any of these meetings which were held from time to time that we have been considering?

MR. MURPHY. No; they attended no meetings. I did discuss the matter informally at a meeting of the Actuarial Society in the middle of May 1937, at which time I think, without question, there were actuaries for some of the insurance departments in the room. There were about three hundred men there.

MR. GESELL. That was before Mr. Marshall undertook his program of bringing the companies into line; wasn't it?

Mr. MURPHY. Yes.

Mr. GESELL. There was no participation of the insurance department representatives at your meetings?

Mr. MURPHY. Not in the discussion; no.

Mr. HENDERSON. Mr. Gesell, are you going to call Mr. Marshall back?

Mr. GESELL. I am; yes.

Mr. HENDERSON. May I suggest that you give him an opportunity to comment on your characterization of his activities. You said, "bring them into line," and I think he resisted that.

Mr. GESELL. I didn't mean to put any implication.

Mr. HENDERSON. I think for Mr. Marshall's sake you should let him make a comment.

Mr. GESELL. Let me put it this way. It was before Mr. Marshall commenced writing letters to companies asking them to state their position with respect to this problem.

Mr. MURPHY. Yes.

Mr. HENDERSON. I think that will take care of the problem.

Mr. GESELL. What was it that motivated the insurance department's original interest in that matter, Mr. Murphy?

Mr. MURPHY. I don't know. I had no contact with them on the questions until we received that letter.

Mr. GESELL. You don't know what he had in mind at the time he wrote that letter?

Mr. MURPHY. No; in the subsequent oral discussion with him, he did have in mind that the extension of these guaranties—as beyond the beneficiary, for example, things of that kind—were, he thought gravely in question in view of the interest condition.

Mr. GESELL. How do you feel about it? Do you feel that this procedure which was adopted by the companies was the best procedure that could be followed in the circumstances?

Mr. MURPHY. Yes; I think it was directly for the benefit of the policyholders as a whole.

Mr. GESELL. I didn't ask you that. I asked you whether you thought it was the best procedure, or whether you felt that possibly it was not the kind of thing where a regulatory body acting in the public interest, should not have been represented and participated.

Mr. MURPHY. No; I think the procedure was pretty satisfactory as it was; because, in dealing with a matter of that sort, I have a good deal of sympathy with permitting the companies to work a situation out without the rigidity of, say, one law or one regulation, because I think in many of these questions none of us feel necessarily dogmatically that we have the right answer when we start. There may be adjustments that will prove to be advisable, so I think that method of handling it works out pretty well.

Mr. GESELL. Of course, there were, as this procedure went through, companies which departed from the position they thought was necessary or adequate in order to bring about greater harmony, were there not?

Mr. MURPHY. I can't answer that.

Mr. GESELL. Your own report, Mr. Murphy, states that it would be advisable for companies to depart from differences for the sake of uniformity, does it not?¹

¹ See "Exhibit No. 785," appendix, p. 4861.

Mr. MURPHY. There is always a margin of doubt in approaching a difficult question of this kind, and if sometimes a company found that a great body of opinion as to what the effect in the future of these things would be, was slightly different from its own, it might be a rather wise thing to do to pay attention to the interpretation of the circumstances given by an important body of opinion.

Mr. GESELL. I take it it is your feeling that you do not feel any benefit would have been served by the insurance commissioner having access to, let's say, all the correspondence that has gone into the record here this morning.

Mr. MURPHY. I don't think it would have had any particular effect, probably. I think the commissioner himself was working toward a certain amount of unanimity on the subject.

Mr. GESELL. And you think, as far as he is concerned, the methods adopted in achieving that unanimity are unimportant?

Mr. MURPHY. Yes; I think it is largely the result that counts.

Mr. GESELL. Do you feel that at any time the commissioner had in mind that the companies would enter into a uniform understanding of this character, or do you rather feel that all he was interested in was in each company's reviewing its own position with respect to settlement options and adjusting it as it thought best in the policyholders' interest?

Mr. MURPHY. Well, I don't know as I can interpret the superintendent's mind, other than to say that he did think that it was a perfectly satisfactory solution, at least for the present, for the companies to go ahead and see if they couldn't work up some movement in that direction.

Mr. GESELL. Did anything he said to you indicate he was encouraging you to enter into this joint arrangement?

Mr. MURPHY. Well, yes; I took it that was the general drift of his mind.

Mr. GESELL. That he was encouraging you to get together for the purposes of accomplishing this result?

Mr. MURPHY. Yes; I think so. That was my interpretation of his attitude.

Mr. GESELL. I have no further questions of Mr. Murphy.

Mr. HENDERSON. I think the phrase you used in the morning testimony, which I went back and read, due to something you said, was voluntary action on your part rather than trying to write difficult code terms.

Mr. MURPHY. Yes.

Mr. HENDERSON. And your answer to Mr. Gesell was that the thing itself seemed to you much more important than how it was accomplished.

Mr. MURPHY. Yes.

Mr. HENDERSON. I would like to explore that just a bit further. Do you have a preference for voluntary action as against the intervention of a State authority?

Mr. MURPHY. I do; because it is much more adaptable to variations in circumstances.

Mr. HENDERSON. I mean, your answer indicated that you didn't care much how it was done, but I gather you do prefer that the technical men assemble, discuss the matter and bring the weight of their technical experience and knowledge to bear on each other, and by that

interplay to come to some general standards which then can by voluntary action of the companies be fairly widely adopted.

Mr. MURPHY. Yes; I think there is a great deal to be said for that from the standpoint of adaptability, and I think it is a perfectly safe situation, because here we have a business which admittedly is a peculiar business, in that the bulk of it is sold by the mutual companies, and the motive, the only motive may I say, as I have known the situation, that the actuaries have is to make the companies secure, essentially secure, for the policyholders rather than from any standpoint of making rules or limitations or any procedure from the standpoint of creating a profit for the stockholders; that being the dominant influence of the life-insurance business. I think that type of procedure is a very safe procedure as well as flexible.

Mr. HENDERSON. Without any invidiousness, however, I was struck by reading the testimony this morning the replies that were assembled in the questionnaires, that none of the witnesses even hinted that the question of getting business, as between companies, was one of the motives. You say that the safety of the company and the general protection of policyholders are the prime motives. But an actuary does think in terms of business for his company?

Mr. MURPHY. Yes.

Mr. HENDERSON. That is, if he sees that there is a wide divergence of terms and the like, it will likely have two effects. If it runs to absurd extremes it will damage and harm the general structure and fabric of life insurance. If your company doesn't follow what you consider bad practice, you are likely to lose future business. Isn't that true?

Mr. MURPHY. That may be true in some circumstances.

Mr. HENDERSON. You don't think it is a very large competitive factor in the matter of getting standard terms?

Mr. MURPHY. Well, I think everybody, of course, has the competitive situation of his company in mind.

Mr. HENDERSON. That is what I am getting at.

Mr. MURPHY. Oh, I think so.

Mr. GESELL. No further questions.

(The witness, Mr. Murphy, was excused.)

Mr. GESELL. Mr. Marshall, will you resume the stand, please?

TESTIMONY OF EDWARD WAYNE MARSHALL, VICE PRESIDENT AND ACTUARY OF THE PROVIDENT MUTUAL LIFE INSURANCE CO., PHILADELPHIA, PA.—Resumed

Mr. GESELL. Mr. Marshall, following the meeting of November 15, 1937, can you tell us what the next significant development was in the field of settlement options from the point of view of the companies who had been attending the intercompany meetings?

Mr. MARSHALL. Some of these developments have already been covered. There was a meeting of April 22, 1938, which was referred to,¹ and there were various problems there in connection with the policy provisions as to the guaranteed basis to be used for the settlement options.

Mr. GESELL. That is, the amount of interest to be guaranteed?

¹ Supra, p. 4550, also "Exhibit No. 775," appendix, p. 4852.

Mr. MARSHALL. The rate of interest to be used in the interest option or the installment option, or the installment certain part of the life-income option, and the life-income-option basis itself was a separate consideration, but discussed.

Mr. GESELL. The rate of interest in those forms of options involves options which are in the policies themselves? Those are options which are in the policies; is that not correct?

Mr. MARSHALL. They are the optional arrangements described in the policies under which the proceeds can be left with the company at interest with a certain guaranty, and a provision for participation over and above the guaranty; or payable in installments with a certain guaranteed rate, and a provision for participation over and above that; or in the form of a life income with installments, with provision for participation.

Mr. GESELL. The distinction I am trying to make is that heretofore we have been discussing special forms apart from the policies and now we are turning to certain provisions in the settlement options as provided in the policy itself.

Mr. MARSHALL. That is true.

Mr. GESELL. This question of the guaranteed interest rate had been considered off and on, had it not, at meetings prior to the meeting of April 22, 1938?

Mr. MARSHALL. I would think so. My memory isn't very clear on it. I am pretty sure it was. I would suppose it was, because the interest rate being realized in the general investment market had gone down and the whole subject of interest guaranties was naturally coming to the fore in people's minds, as to what was safe and sound to use, considering the protection of the general body of policyholders, and what would be perhaps not conservative enough. In other words, the question was in a sense the degree of safety involved from the standpoint of the policyholders generally.

Mr. GESELL. Yes; in other words, whether or not the companies had not guaranteed on their existing settlement options too high a rate of interest, which might result in some injury to those policyholders which did not have the settlement option provisions in their policies.

Mr. MARSHALL. The consideration was as to what should be used in new policies to be thereafter issued at some time in the future, and each company was struggling with that problem.

Mr. GESELL. What was the average rate of interest guaranteed at the time of this meeting of April 22, 1938?

Mr. MARSHALL. Let us concentrate on the interest option.

Mr. GESELL. Yes.

Mr. MARSHALL. At that time, as I recall, of the 19 companies whose record I happened to see, 19 used 3 percent. I think 19 companies in a tabulation I saw referred to in the digest used 3 percent.

Mr. GESELL. Was that uniformity of interest on the interest option the result of any previous understandings or discussions which had taken place among the actuaries, or was it the result of chance?

Mr. MARSHALL. I would suppose it was simply a corollary to the fact that a good many companies used 3 percent in their reserve basis.

Mr. GESELL. And they naturally carried that percentage over into their settlement?

Mr. MARSHALL. A good many of these had used the 3-percent basis ever since the settlement options were first conceived, as we heard. I

have forgotten, but somewhere around 1910 or 1915, along in there they were introduced, but it was a situation of long standing that the guaranteed rate would at that time be somewhat near the reserve.

Mr. GESELL. Now, what discussions were had at this meeting of April 22 with respect to this matter of interest? You were present at that meeting, were you not?

Mr. MARSHALL. I believe I was. It is going to be difficult for me to remember that, because I didn't concentrate on it particularly, because I wasn't the chairman of that meeting, but I remember there was a diversity of opinion on the subject.

Mr. GESELL. Some companies felt that 3 percent could still be guaranteed and some felt that it should be lower, or how did that difference—

Mr. MARSHALL. Of course, we have to remember that this whole subject of margins of safety is a matter of progressive education; that the people were getting more and more to the realization that interest rates were not falling just for a year or so, and they were further down than they expected; and perhaps they wouldn't go up as fast as they expected in the future. They didn't know; at any rate they realized that it was a matter in which conservatism, as always, should be the prime factor—safety first, in other words.

Mr. GESELL. Reading from "Exhibit No. 775," which is in the record,¹ where the meeting of April 22, 1938, is summarized, I will ask you if this refreshes your recollection generally as to what the discussions on the interest option were. The memorandum states [reading from "Exhibit No. 775"]:

There was a great deal of discussion about reducing the interest rate below 3 percent, particularly on any policy which gave any withdrawal privilege, whether in whole or in part. No poll of companies was taken on this question, but the poll was taken as to the companies interested in the rate lower than 3 percent, or at no guaranteed rate. The Equitable, Fidelity, Home, Sun, and Mutual favored a policy which did not express any rate.

The following companies were strongly in favor of going below 3 percent: Connecticut General, Aetna, Penn Mutual, Union Central, Provident Mutual, Mutual, Connecticut Mutual, Massachusetts Mutual, Home Life, Prudential, Fidelity, and Phoenix. The following were inclined that way; would probably adopt it if there was a general adoption: New England, Sun Life, State Mutual, and John Hancock. The following wish to continue the 3-percent rate: Metropolitan, Northwestern, National, Berkshire, and Mutual Benefit. The following two companies would like to adopt a rate lower than 3 percent for an option which permitted withdrawal: Guardian and Equitable.

Is that more or less your recollection of the nature of the discussion that took place?

Mr. MARSHALL. Yes; I would think so. It is very natural that there would be a diversity of viewpoint there, as no one can read the distant future. These optional methods of settlement usually begin at the death of the insured or the maturity of the endowment and then carry on after that point.

Mr. GESELL. So it involves anticipating something very far in the future?

Mr. MARSHALL. So naturally no one could read that distant future; in fact, it is pretty difficult to read 10 or 20 years in advance, and the ideas at that time in most people's minds were conservatism and safety. Now, as I say, there was difference of opinion as to how that

¹ See appendix, p. 4852.

conservatism would be accomplished. Some companies thought of the idea of 2 percent; others thought that perhaps that wasn't necessary and that conservatism would be accomplished at $2\frac{1}{2}$ percent. Some liked the idea of using 3 percent, provided there was no right to withdraw and thus prevent what we might call the financial antiselection, which would be present if there were the right to withdraw at any time. And that variation of opinion continued all the way to the end, even when the policy provisions of the different companies were finally adopted; perhaps not as great as at that time, but still a very great variation of opinion; in fact, looking at the 1939 Unique Manual Digest, those same—the 19 companies which all had a guaranty of 3 percent before, 3 of them are on a 3-percent basis, 14 of them are on $2\frac{1}{2}$ -percent basis, 1 of them is on 2-percent basis, and 1 of them has a varying rate, $1\frac{1}{2}$ or 3 percent, depending on, I believe, the right of withdrawal.

In other words, the net result was less of what you might call uniformity than there was at the beginning.

Mr. GESELL. Well, there were 14 companies that went from 3 to $2\frac{1}{2}$ percent?

Mr. MARSHALL. They were conscious of the need for greater conservatism which they saw and they followed that course individually.

Mr. GESELL. I show you a letter written by yourself to Mr. Murphy, under date of May 25, 1938,¹ and ask you if that letter does not express your attitude at that time with respect to the various discussions and proposals that had been made with respect to this guaranteed interest.

Mr. MARSHALL. May I take the time to read this?

Mr. GESELL. Certainly.

Mr. MARSHALL. I am interested in this sentence. May I mention it?

Mr. GESELL. I am going to read the letter entirely for the record.

Mr. MARSHALL. All right, then.

Mr. GESELL. Do you recognize that as a letter which you wrote?

Mr. MARSHALL. Yes.

Mr. GESELL. The letter addressed to Mr. Murphy, entitled "Optional Mode of Settlement" [reading from "Exhibit No. 794"]:

At the intercompany conference last week there was considerable diversity of opinion regarding the guaranteed rate to use in the new policy forms for the optional method of settlement under which proceeds are left with the company at interest.

One substantial group of companies favors a 2-percent or $2\frac{1}{2}$ -percent guaranty in all cases, feeling that this reduced rate is necessary in view of the fact that such optional settlement would begin after the life insurance ends and would on the average extend over a considerable period thereafter.

The second group composed of a few companies, would like to retain the present 3-percent guaranty on the grounds of service to clients and agency force.

A third group of several large companies leans toward the use of a 3-percent guaranty for funds left under elections made by the insured during his lifetime, effective at his death, where the beneficiary has no right of withdrawal and no guaranty whatever under other funds left at interest. This suggestion has certain merit but the use of no guaranteed rate of interest would mean a violent change from the present practice under Federal income-tax laws. There would be no exemption for the company of guaranteed interest and there might be a question whether such a provision would be approved by all the States.

Each of these three points of view has certain advantages and disadvantages. It has seemed so important that we should endeavor to adopt a uniform guaranty for this optional method of settlement that the following suggestion is made, using the best ideas for each of the above proposals.

¹ Entered later as "Exhibit No. 794." See appendix, p. 4873.

Now, before continuing with the rest of the letter, Mr. Marshall, you say

it has seemed so important that we should endeavor to adopt a uniform guaranty for this optional method of settlement.

Why has that seemed important and to whom did it seem so?

MR. MARSHALL. It seemed to me—and remember, I wrote that letter, although I think the ideas reflected the ideas of a few other actuaries at least—it seemed important to me that we should not engage in the sort of let us say emphasis on features which might be unsafe. The situation might be compared to one in the automobile industry where if a number of engineers thought it would be in the public interest to use a higher safety steel in the frame of the automobile, it would be a good thing for the different manufacturers to do that each in his own way, according to what he thinks his requirements were, for the good of the whole. The competition would continue as before in the over-all cost of the car and there would be a highly competitive system, but nevertheless greater safety to the public.

(Mr. Henderson assumed the chair.)

MR. GESELL. You mean, if I get you straight, that if one company guaranteed, let's say, $3\frac{1}{2}$ percent, and another guaranteed $2\frac{1}{2}$ percent, assuming that both of those guaranties were uncertain and involved a considerable amount of guess-work because of the length of time that would have to be taken into consideration, that that difference would be an unfair difference upon which the companies should compete?

MR. MARSHALL. To my mind, it wouldn't be unfair—perhaps even there, I could add that, but not from the way you mean. It seems to me that would be an utterly unsound matter to stress from the standpoint of the public interest. Remember that if the company guaranteed $3\frac{1}{2}$ percent and created the illusion to some client that there might be a gain to him in that, and later on, the company ran into financial difficulty because it overextended its guaranty, that would not be in the public interest.

MR. GESELL. So if the companies could be brought to a uniform and safe and sound basis of guaranteed interest rate, eliminating any factor of competition on that guaranty you thought it would be advisable and to the interest of the business as a whole.

MR. MARSHALL. You are talking about my personal views. I personally do believe it is well to have a good wide margin of safety, and I don't see why in the fundamental margin of safety the competitive element needs to enter, because the competition can center in the excess interest over and above that guaranty. All it means is that there is a little less emphasis on the guaranty in the structure, as it were, that works out at the time, and a little more emphasis on the excess interest. As you will find in those letters again and again, I make the point that after all, participation will make up the difference in normal times.

Now if, let us say, we should strike very abnormal times, far ahead in the future, in which the interest rates would happen to go below that reduced guaranty which a number of companies adopted in the interest of conservatism, then the whole thing would have been justified anyhow. "Safety first" is the idea we tried to suggest to these different people in writing those letters, and while they reflect

my personal ideas, I think quite a number of actuaries feel very much the same way.

Acting Chairman HENDERSON. May I ask a question there? I can understand the conservatism, but isn't there a distinction to be made between the idea of safety first and the uniformity? As I understood the letter, the emphasis was on adopting the uniform guaranty and not on adopting a safe guaranty. Is the distinction present in your mind?

Mr. MARSHALL. I wasn't ever able to sell that idea very much apparently.

Acting Chairman HENDERSON. Now, Mr. Marshall, that isn't what I asked you at all. I asked you—I ask you again—whether or not there isn't a distinction between a safe policy and the desirability you expressed here of adopting a uniform guaranty. You could have had a uniform guaranty that was unsafe, or you could have had all the companies below a certain level, could you not, below a certain safe level, and each of them having a different rate?

Mr. MARSHALL. Well, I think that is true, only there isn't very much margin for variation from 2 to 2½ percent and there are three companies with 3 percent already.

We must also stress the fact that participation is a big element in this whole situation. A number of companies are allowing 3½ percent or more today on these policies—including participation. That means that if the guaranteed rate of interest were 3 percent they would be allowing 2½; if the guaranteed rate of interest were 2 percent, they would be allowing 1½, and so forth. In other words, under normal conditions, the net result to the policyholder is the same. The only question is, How much safety? There is no reason fundamentally to have full uniformity in safety, but my idea was, and still is, that it is not a good idea—bringing in competition—for any industry to stress competition to the point of lack of safety. It is not in the public interest.

Acting Chairman HENDERSON. I can understand that and accept it, but the stress here was on the adoption of a uniform basis. Do you think it is best, leaving out these other considerations you are talking about, for the industry to have a uniform guaranty which automatically takes that out of the realm of competition?

Mr. MARSHALL. It wouldn't worry me very much if some company wanted to go to a still stricter basis. In a certain area there it is almost a matter of choice within small limits. As you will find from some of that correspondence, I rather favored 2 percent. It is pretty hard to say whether 2 or 2.5 percent is right, looking into the distant future, because you can't read the future too exactly, and it is somewhat a matter of opinion.

When I got the ideas of the different actuaries, I found a good many of them thought that the 2 percent was unnecessarily conservative at this time, and that 2.5 percent was quite sufficient. Well, the difference between 2 and 2.5 percent was small, and if the companies liked 2.5 percent it was all right, but it is quite all right to use 2 percent and some companies did, and some continued to use 3 percent, as you have heard, with restrictions as to the right of withdrawal.

Acting Chairman HENDERSON. You are again talking about the adoption of a uniform guaranty, rather than a conservative one. Of

course, if you are in competition with some other insurance company, and your company has a 2.5-percent basis and they have a 2-percent basis, you are in a better competitive situation, aren't you?

Mr. MARSHALL. I think in normal times it doesn't make much difference. The excess interest rate is considerably over; it doesn't make much difference at all.

Acting Chairman HENDERSON. It does after you have taken your option, doesn't it?

Mr. MARSHALL. It might if interest rates fell very far down.

Acting Chairman HENDERSON. It would make quite a bit of difference. There is a difference, I think, which you haven't stressed, between what the assumed earning rate is and what the option rate would be. When you elect the option, that does continue throughout the life of the contract then, doesn't it?

Mr. MARSHALL. It usually evens the matter up so that whether the guaranty is 2, 2.5, or 3 percent under normal conditions the net result to the client would be the same.

Acting Chairman HENDERSON. It irons itself out?

Mr. MARSHALL. It would under the participation.

Acting Chairman HENDERSON. But it wouldn't iron itself out so far as the selling of the contract or the individual instance was concerned.

Mr. MARSHALL. I haven't heard a great deal of difficulty over this. Some companies use 2 percent, and I haven't seen any inclination on their part to go to 2.5 percent.

Acting Chairman HENDERSON. This does go into what the cost of your policy is, whether it is 2 or 2.5 percent. That is one of the factors in the cost.

Mr. MARSHALL. Of course I am not sure how that would work in. If there is participation, that would even it up.

Acting Chairman HENDERSON. It does, however—suppose there is not participation and you are competing with a non-participating company—make a difference in the cost as to what the rate is.

Mr. MARSHALL. I believe it is the case under optional methods of settlement that there is participation in both the participating and nonparticipating companies.

Acting Chairman HENDERSON. But it is one of the elements of cost.

Mr. MARSHALL. Generally there is a great deal of difference in cost in competition, and in life insurance and endowment insurance, if that is what you mean, and there is terrific competition and variation in cost between companies according to their internal conditions, and the way they conduct their business.

Acting Chairman HENDERSON. The coefficient of safety in an automobile engine is not an element of cost. Your analogy wasn't very well chosen, was it? It would be more apt if the automobile companies agreed on a uniform basis so far as the cost of tires in their costing system is concerned. That would be more strictly comparable, wouldn't it?

Mr. MARSHALL. Well, of course, they didn't agree. I would have to get back to what I said this morning. There was no agreement of that sort.

Acting Chairman HENDERSON. Let me choose that language. That was my choice. Suppose they adopt—that was your own language

here—let me go still further. Isn't the analogy to the automobile experience this: If the automobile companies adopted a uniform cost for tires or some other element in the cost of the automobile, that would be comparable with this uniformity of guaranty you were seeking?

Mr. MARSHALL. It isn't comparable for the simple reason that participation makes a wide variation in cost and in their individual earnings.

Acting Chairman HENDERSON. I think I understand, but it would be more nearly comparable when you were thinking of buying an automobile than buying an insurance policy to consider those two things.

Mr. MARSHALL. I don't think so. You would have to set up in that assumption that the different tire companies had participation; they had to be mutual tire companies, and I don't think we would want to get into that.

Acting Chairman HENDERSON. I think that in the analogy the next logical step would be that they take care of the things in which they don't adopt uniform cost methods.

Mr. MARSHALL. If you wish to follow the automobile analogy, each automobile as a whole is highly competitive, and that is the way it works out in life insurance. Each automobile, which represents the whole policy, is highly competitive, and then it just happens that the options themselves, independent of the policy, are competitive because of the participation, and that analogy just runs down to the safety factor, that is all.

Acting Chairman HENDERSON. You don't hear of the automobile people, however, coming into intercompany conferences for standardization of elements, do you?

Mr. MARSHALL. I don't know what they do.

Acting Chairman HENDERSON. I don't hear about it and I have been at a listening post for several years.

Mr. MARSHALL. I have noticed, though, in the interest of the public, they more or less simultaneously think that safety glass is a good thing for the public, or hydraulic brakes, or whatever brakes are that are efficient.

Acting Chairman HENDERSON. They don't have an intercompany conference on that, Mr. Marshall.

Mr. MARSHALL. But, of course, I confess that the analogy isn't complete in the automobile because participation must always be remembered as the element of cost. That is the thing that determines the cost of the gadget, the options themselves. Then on top of that is the over-all cost, which varies tremendously, so you have almost a double competitive element working there.

Mr. GESELL. To end this part of the discussion, Mr. Marshall, you do believe, do you not, that if an agent of one company can go to a man and say, "Here on this settlement option you have a guaranteed interest rate of 3 percent," and an agent of another company says, "Here you have a guaranteed interest rate of 2 percent," that the fellow who has a 3-percent guaranty has some advantage in selling the policy?

Mr. MARSHALL. I think the policyholder would begin right away in saying, "What is the over-all cost of the policy," and he would look right away and find that varies tremendously.

Mr. GESELL. Assuming that all other factors would be identical.

Mr. MARSHALL. I don't like to assume things that aren't so.

Mr. GESELL. You mean to say, then, it is your opinion that there is no competitive advantage for a company that can offer a guaranteed interest rate of 3 percent as against a company that can only offer a guaranteed interest rate of 2 percent.

Mr. MARSHALL. The over-all cost varies so widely that that small element is not at all the main element and is further subordinated by the fact that the 3 percent and the 2 percent are subject to participation which tends to put them on equality in the client's mind and therefore he dismisses them as the main thing and turns back to the over-all cost of the policy, which varies widely between companies and is the main source of competition.

Mr. GESELL. Let's have an answer to my question. Do you believe there is any competitive advantage to a company which can offer 3 percent interest as opposed to a company which can offer 2 percent. It is a simple "yes" or "no" question; I want a "yes" or "no" answer.

Mr. MARSHALL. I will have to give you a preamble first.

Acting Chairman HENDERSON. Whether you have to or not, I am sure you will. [Laughter.]

Mr. MARSHALL. But if you assume such limited premises that we have, I could even consider where the 3 percent might be used against the company—

Acting Chairman HENDERSON (interposing). I am acting chairman. May I stop you right there? Do you want to say you can't give a "yes" or "no" answer to that?

Mr. MARSHALL. I feel that requires much further amplification than a simple "yes" or "no" to get the truth into the proceedings.

Mr. GESELL. I have no objection to your giving the explanation if you will first answer the question "yes" or "no." You may make any explanation you want. I had in mind, Mr. Marshall, when I asked you that question a paragraph in your letter of June 7, 1938,¹ concerning optional settlements which we are coming to in a moment, when you say [reading from "Exhibit No. 795"]:

The outstanding feature is the widespread desire of companies to agree on a standard basis so that unsound competition on differences in guaranty can be avoided.

Now if that isn't an expression which indicates that difference in guaranty is a factor in competition, I can't read English and that is why I am surprised we can't get a "yes" or "no" to my question.

Mr. MARSHALL. As I said earlier in this afternoon's proceedings, it is quite possible to have unsound competition on differences in guaranties because there is the emphasis on what may be an area of loss later on, and the reason I couldn't answer your question "yes" or "no" is because I could conceive, if you follow that difference of this guaranty and that guaranty to its logical conclusion that the higher guaranty might involve ultimate loss to the company; and if the policyholder were well aware of the circumstances, he would prefer to take the lower guaranty at the moment. I had to get that preamble in to answer it.

Mr. GESELL. With the preamble, what is the answer: "yes" or "no"?

¹ Entered later as "Exhibit No. 795." See appendix, p. 4875.

Mr. MARSHALL. If the policyholder could look into the future to read the rate of interest, it might be just as well "no" as "yes."

Mr. GESELL. Well, we will come back to the letter of May 25, 1938. Reading from the third page, the letter states [reading from "Exhibit No. 794"]:

The main advantage of the suggested provisions is that a consistent basis for the various optional settlements can be employed, the 3 percent guaranty made in the area where most desirable and least dangerous, and 2 percent guaranteed where a much-needed margin of safety should be introduced.

It is likely that, in normal times, participation would be sufficient to put both the 2-percent and 3-percent funds on the same gross-interest basis if desired. However, when earned interest rates are low, the differential could be taken into account if necessary to protect the company. This is according to the best mutual insurance traditions under which margins of safety are introduced to be returned as dividends if not needed, but otherwise to be used to meet the contingency involved.

The proposal in this letter has been discussed with a number of actuaries and they are very hopeful that a substantial number of companies of our type can agree on some such provision as a uniform basis in our forthcoming new policies. Perhaps there are some details which may need polishing, but that would be relatively easy if the main idea meets with favor.

This letter is being written to each of the following companies to see whether we cannot reach a common ground in this very important area of our policy contracts: Aetna, Connecticut General, Connecticut Mutual, Equitable of New York, Fidelity, Home, John Hancock, Massachusetts, Mutual, Metropolitan, Mutual Benefit, Mutual Life, National of Vermont, New England, New York Life, Northwestern Mutual, Penn Mutual, Phoenix, Prudential, State, Union Central.

Would your company be willing to adopt such a provision if a substantial majority of these companies did so? It would be greatly appreciated if you could give consideration to this suggestion and let me know, say by June 1, whether it appeals to your company as a basis for use in its new policies. An abstract of the replies would be sent to you.

Mr. MARSHALL. May I look at that a moment, please? I don't have a copy here so I am forced to look at this one. The reason I am looking at this is because, as I said before, these were some ideas I threw out for discussion. It was a sounding-board process, the same as I mentioned this morning, and as a matter of fact some of these suggestions were considered impractical, which is the word I think to use, by some others and I later agreed that they were impractical and discarded them myself.

As you will find, there are some of those ideas that were not incorporated in the practice of any company that I know of.

Mr. GESELL. I would like to offer this letter for the record.

Acting Chairman HENDERSON. It may be received.

(The letter referred to was marked "Exhibit No. 794" and is included in the appendix on p. —.)

Mr. GESELL. Now I wish to show you a letter dated June 7, 1938,¹ and ask you if you recognize that as a letter which you wrote.

Did you send that letter to the same group of companies?

Mr. MARSHALL. May I have it again?

Mr. GESELL. Certainly. It is not addressed to anyone. I am wondering to whom it was sent.

Mr. MARSHALL. I believe I sent it to what are known as the little entente companies.

Mr. GESELL. Now will you tell us what the little entente companies are?²

¹ Entered later as "Exhibit No. 795." See appendix, p. 4875.

² See also, *supra*, p. 4540.

Mr. MARSHALL. The little entente is a discussion group of the presidents of 13 companies. I can give you their names in a minute. I have them in here somewhere.

Mr. GESELL. I would like to have the names of the companies, if I might.

Mr. MARSHALL. Aetna, Connecticut General, Connecticut Mutual, Home Life, John Hancock, Massachusetts Mutual, Mutual Benefit, National of Vermont, New England, Penn Mutual, Phoenix Mutual, Provident Mutual, and State Mutual.

Mr. GESELL. Is that the group that is sometimes referred to as the junior presidents association?

Mr. MARSHALL. Yes.

Mr. GESELL. You call them a discussion group. You mean they get together to discuss mutual problems from time to time?

Mr. MARSHALL. True.

(Representative Reece assumed the chair.)

Mr. GESELL. You wrote this letter to them, I take it?

Mr. MARSHALL. I wrote this letter to actuaries in the companies of the little entente.

Mr. GESELL. The letter states [reading from "Exhibit No. 795"]:

In view of the little entente meeting on Friday I am sending to the companies this preliminary report of the reactions to the suggestions contained in my letter of May 25.

The outstanding feature is a widespread desire of companies to agree on some standard basis so that unsound competition on differences in guarantee can be avoided. Although the ideas of the different companies still differ, many of them obviously are near agreement.

The suggestion in my letter met with the approval as a compromise from five companies assuming other companies agreed: Aetna, Connecticut General, Equitable of New York, Home, Union Central. The following companies were definitely opposed to it because they do not like to use two rates of interest for the same type of settlement depending on whether or not there is a right of withdrawal: New England, Northwestern Mutual, Prudential. The Mutual Benefit also was not favorable to the suggestion.

Most of the companies favor a uniform rate of less than 3 percent. Those preferring 2 percent as a uniform rate were: Aetna, Northwestern Mutual, Penn, Provident, State Mutual. Those preferring $2\frac{1}{2}$ percent were: Connecticut Mutual, New England, Phoenix, Prudential, Union Central.

In other words, about 10 of the 16 companies heard from favored a uniform rate of 2 or $2\frac{1}{2}$ percent.

Now, you say that the suggestion in your letter met with approval as a compromise from five companies, assuming other companies agreed. I am again going to ask you whether or not this uniformity question is not directly related to the problem of competition.

Mr. MARSHALL. I am sorry to bother you. May I have this? You have to read the context of it as well as a few words. It says here "unsound"—let me find the sentence. * * * "unsound competition on differences in guaranty."

Mr. HENDERSON. Don't just read a few words.

Mr. MARSHALL [reading]:

The outstanding feature is a widespread desire of companies to agree on some standard basis so that unsound competition on differences in guaranty can be avoided.

I interpret that as meaning they felt they wanted to be sure to have a sound basis of guaranty that is safe, and they certainly hoped that no company would adopt, for the good of the business, a guaranty which was unsound, and as I said this morning, there would begin

to be brought into the business competition on unsound features which ultimately may result in loss and disappointment to the companies using them, and therefore react against the clients, whereas the participation, plus the more conservative rate of interest, can still maintain the competition and avoid that unsound element which may not be for the good of the policyholders and the ultimate safety of their insurance.

Mr. GESELL. In other words, what you were trying to do here is eliminate one feature of the business which you consider to be unwise competition.

Mr. MARSHALL. I personally would like to see that unsound emphasis eliminated and to concentrate the competition, which will occur, on the excess interest under the option and on the over-all cost of the policy, because if a company, for example, did use too high a guaranty and incurred loss, that would certainly fall on its body of policyholders, and they would suffer, and in the meantime they would in a sense be misled by the illusory gains which they thought they were going to get and didn't get. This is nothing more than the same thing which existed, as I said before, in the insurance business for years, that the guaranty was kept conservative and the competition centered around the other features, and it seems to me very sound that that should be.

Mr. GESELL. In the last paragraph of your letter you again say [reading from "Exhibit No. 795"]:

In view of the widespread desire for a uniform basis between companies, is there any possibility that the Little Entente companies could get together on some such program as that outlined above?

In every letter we have read so far——

Mr. MARSHALL (interposing). Of course——

Mr. GESELL. Just a moment, please, Mr. Marshall. In every letter we have read so far there has been considerable stress laid upon the uniformity, and I suggest to you that you are interested in there not only being sound interest rates guaranteed but you were interested in those guaranties being uniform.

Mr. MARSHALL. I have never been interested in uniformity between companies if soundness exists. I don't mind a bit of competition; I rather like it. We like it in our own company. I think in some testimony that was introduced a few days ago the word "self-sufficient" was used to describe our company, perhaps along with others. All that meant was that we like to preserve our individuality where it is safe and sound. We are in a highly competitive business and, where it is safe and sound to be competitive, we don't want to miss any tricks; but where it is in competition in unsound guaranties, it is not for the good of the business to have them, and I personally would like to see them eliminated and have the competition center around the cost, and other elements of service and like matters, after all, rather than an excursion into the dubious area of whether something is safe or not, which should not enter into the picture. It is much sounder for the business and the policyholders.

Mr. GESELL. What interest rate did you end up by guaranteeing?

Mr. MARSHALL. Our company's rate is 2½ percent.

Mr. GESELL. You say in the letter the Provident very much prefers 2 percent.

Mr. MARSHALL. That was my opinion at that time.

Mr. GESELL. Did your opinion change within the next month or so?

Mr. MARSHALL. As I said before, it is very easy within a variation of one-half of 1 percent not to be able to read the future. I, personally, as I told you I think earlier in the testimony, liked 2 percent, but personally I think $2\frac{1}{2}$ percent is a very good rate and perhaps the fact that so many companies thought that that was quite sufficient makes it likely that it was quite sufficient.

Mr. GESELL. It wasn't the fact that you would be selling at 2 percent with 13 other companies selling at $2\frac{1}{2}$ percent that affected your judgment in any way?

Mr. MARSHALL. I wouldn't say that was not so, but I would put the emphasis in a positive way; first, namely, that there was no reason for us to go to 2 percent if the consensus of opinion as to a safe rate was $2\frac{1}{2}$, and that seemed to be the consensus of opinion. I discussed it with others and contacted them at length as to what was necessary, and we came to the conclusion that $2\frac{1}{2}$ percent was all right.

Mr. GESELL. It was your independent judgment 2 percent was much more preferable, and that is why I was surprised to find you were offering $2\frac{1}{2}$ percent.

Mr. MARSHALL. I think I would just as leave have seen the use of 2 percent. After all, participation makes up the difference under normal conditions, but I think $2\frac{1}{2}$ percent is quite satisfactory. There are certain elements in the $2\frac{1}{2}$ percent which appealed to me, that when you use $2\frac{1}{2}$ percent for certain programs, for the beneficiary, you don't have to charge quite as much as when you use 2 to accomplish a given guaranteed income. On the other hand, the excess interest makes it up.

Mr. HENDERSON. If this participation makes it up, how do you get into unsound competition?

Mr. MARSHALL. Suppose a company very foolishly, through misunderstanding of the trend in interest rates, and perhaps a temporary condition in its own company, thought 4 percent was quite all right for a guaranty, I think that would certainly be very unwise of that company. I would want to call its attention to the situation as emphatically as I could.

Mr. O'CONNELL. Why would you want to?

Mr. MARSHALL. Because I don't like to see any company engage in practices which will ultimately cause substantial loss to it, and perhaps reflect on the credit of the whole industry.

Mr. HENDERSON. But you say here [reading from "Exhibit No. 795"]:

In view of the widespread desire for a uniform basis between companies, is there any possibility that the Little Entente companies could get together on some such program as that outlined above?

Mr. MARSHALL. I was hoping each company would adopt practically a uniform rate so as to focus competition on the over-all cost and participation and not consider this one way or the other, because it might react unfavorably on a company if it attempted to increase the guaranty under a mistaken supposition that it could do it and still be safe.

Mr. HENDERSON. In the light of this letter and of the answer you have just given, what is your answer to the question Mr. Gesell pro-

pounded as to whether there is competition as between different interest rates? Is there competition as between the different interest rates?

Mr. MARSHALL. I think I was urging that unsound competition be eliminated. I think it might be possible for a company which offered too large a guaranty to be engaging in unsound competition, as I said before. My letter said "so that unsound competition could be avoided." I didn't just say "competition." Competition is what we are all engaged in, and we don't want to eliminate it.

Mr. GESELL. I would like to offer for the record the letter of June 7, 1938, identified by the witness.

Acting Chairman REECE. It may be received.

(The letter above referred to was marked "Exhibit No. 795" and is included in the appendix on p. 4875.)

Mr. GESELL. Now I call your attention to a letter, Mr. Marshall, dated June 23, 1938, and enclosure, and ask you if this enclosure is a correct summary which you distributed to the members of the "Little Entente," summarizing the votes taken at that time with respect to the interest rate.

Mr. MARSHALL. Yes; I wrote that.

Mr. GESELL. I wish to offer this for the record.

Acting Chairman REECE. It may be admitted.

(The letter referred to was marked "Exhibit No. 796" and is included in the appendix on p. 4876.)

Mr. MARSHALL. May I read one paragraph of that letter to stress a certain point?

Mr. GESELL. If the committee wishes, it is perfectly all right with me.

Acting Chairman REECE. I didn't understand the statement.

Mr. GESELL. He wishes to read a paragraph from a letter we introduced.

Mr. MARSHALL. I was referring to the interest rates, and I just wanted to stress this [reading from "Exhibit No. 794"]:

It is likely that this normal participation would be sufficient to put both 2 percent and 3 percent on the same gross interest basis if desired. However, when different rates are to be taken into account, if necessary to protect the companies, that is according to the best mutual insurance traditions under which margins of safety are introduced, to be returned as dividends if not needed, but otherwise to be used to meet the contingency involved.

Mr. GESELL. I now want to ask you if you recognize this letter to Mr. Murphy, dated July 7, 1938, and the accompanying schedule, as a letter and schedule which you prepared.¹

Mr. MARSHALL. Yes; I find this letter refers repeatedly to the word "plan," and the like. There is no reference to agreement or anything like that.

Mr. GESELL. What was that again, Mr. Marshall? Will you repeat that?

Mr. MARSHALL. I find that the word "plan"—what the companies planned to do—is emphasized in there quite a bit.

Mr. HENDERSON. As against the June 7 letter, where you used "to agree" and "getting together,"² is that the distinction you want to make?

¹ Subsequently introduced as "Exhibit No. 797." See appendix, p. 4878.

² See "Exhibit No. 795," appendix, p. 4875.

MR. MARSHALL. I was recording in this letter what the company said, and before I was expressing some hopes.

MR. GESELL. Well, I will read this letter for the record. [Reading from "Exhibit No. 797":]

The various companies have very kindly cooperated in making it possible to prepare the enclosed chart giving their confidential plans regarding the new optional-settlement basis. The Home Life and National of Vermont have not made a final decision but their present inclination is shown.

It will be seen that there is almost complete uniformity in connection with the interest option and the life income option. Two companies are planning to base the installments certain in the life-income option on $2\frac{1}{2}$ percent instead of 3 percent, and the Connecticut General to base them on $3\frac{1}{2}$ percent for its nonparticipating policies only. With the few exceptions shown on the sheet the companies will use the life-income-option basis for maturity settlements under endowment-income policies.

The great majority of the companies indicate that they will employ $2\frac{1}{2}$ percent for the fixed income until proceeds and interest are exhausted option. There is less agreement regarding the installments-certain option, although the majority of the companies favor $2\frac{1}{2}$ percent. A number of the remaining companies lean toward the use of 3 percent with no right of commutation, but some of them have indicated that they may decide on $2\frac{1}{2}$ percent if the majority of the companies favor it.

Most of the companies plan to put this program into effect January 1, 1939. The Penn Mutual will make the optional settlements effective as of that date, but will defer the remainder of the program until July 1, 1939, when the new rate book will appear. The Home Life feels that it will be impracticable to get all the forms approved by January 1, 1939, but will do so as soon as feasible thereafter.

There are some questions raised as to whether the Massachusetts department would approve optional-settlement provisions with different rates of interest used for different options. The department has stated tentatively to Mr. Tebbets that it would approve settlements based on $2\frac{1}{2}$ percent for the interest option and both installment options, and 3 percent throughout for the life-income option.

If there are any inaccuracies regarding the plans of your company set forth on the accompanying chart please let me know so that a correction can be made.

And the accompanying chart shows the position that each company will take on each of the questions under consideration, does it not?

MR. MARSHALL. It shows a wide variation in the position which each company takes.

MR. GESELL. Now let me see how wide this variation is. Under the interest option, I notice 16 companies at $2\frac{1}{2}$, 2 on a 3, and 1 on a 2. Is that a wide variety to which you refer?

MR. MARSHALL. As compared to complete uniformity, so-called, before.

MR. GESELL. Explain that one to me.

MR. MARSHALL. As I said earlier in the testimony, before this thing started there were 19 companies with a 3-percent basis, and this resulted in less uniformity than when they started. All it resulted in was getting the companies conscious of conservatism in the safety factor of optional methods of settlement, and to my mind that was a highly desirable result, for the conference to focus the consciousness of the companies on safety. Each company, as you will see from that very letter, followed its individual course and plan according to its own judgment, and the net result, I believe, was of very great value to the policyholders in the increased safety interjected into the life-insurance situation. I think the companies

should be commended for that sort of discussion, and the outcome through the actions of each company.

Mr. GESELL. The question we were addressing ourselves to at this time was as to whether or not the uniformity had been achieved. Let's take the question under the column "Maturity Settlement Endowment Income Policies—Same as Life Income Option."

Yes; yes; yes; yes; yes; yes; yes; yes; yes; yes; yes; yes; (?); not set back; yes; yes; yes; yes.

That indicates a certain amount of uniformity to me, Mr. Marshall.

Mr. MARSHALL. Of course that option is participating. During the installment period—

Mr. GESELL (interposing). I wish to offer this for the record.

Acting Chairman REECE. It may be admitted.

(The documents referred to were marked "Exhibit No. 797" and are included in the appendix on p. 4878.)

Mr. MARSHALL. The variation in cost arises through the participation, and not through the guarantee alone, and I might point out also that if we take age 65, female, there was a greater variation in the return between the highest and lowest company putting them in order of size of guaranty, after this form was got out, than there was before.

Mr. GESELL. Now I want to ask you if you will identify a letter of July 28, 1938, addressed to Mr. Murphy, with respect to optional modes of settlement.

Mr. MARSHALL. Yes.

Mr. GESELL. Again bearing on the subject of uniformity, I would like to read this letter [reading from "Exhibit No. 798"]:

Since we sent you the letter of July 7 and the accompanying summary of the attitude of companies regarding optional methods of settlement, a few changes can be noted. For the Connecticut General, change the answer under "Life income option" to "Yes (Par. Bus.)." Also note that the Connecticut General policy forms will contain no provision for withdrawals or commutation under optional methods of settlement.

The National of Vermont will probably use 2.5 percent for both installment options.

The Massachusetts Mutual has practically decided upon 2.5 percent for installments certain but is waiting to hear of any further action before making a final decision.

The Equitable of New York will use 1.5 percent instead of no guaranty for the interest option where funds are withdrawable. Its life-income option will be without right of commutation and the two installment options will be based on 3 percent with withdrawal or commutation only as may be approved by the society at the time of the election of the option.

The Northwestern Mutual, Connecticut Mutual, and Phoenix are still considering whether to use the standard basis on maturity settlements of endowment income policies.

In general the changes that have occurred have been slightly in the direction of still greater uniformity than indicated in the summary previously sent you.

I offer that letter for the record.

Acting Chairman REECE. It may be admitted.

(The letter referred to was marked "Exhibit No. 798" and is included in the appendix on p. 4880.)

Mr. MARSHALL. The outcome of that, however, was that some of the changes which later occurred were just in the reverse direction and the net result, as I said before, was less uniformity when the whole discussion was completed than when it began, and the net result, however, was that companies became conservatism conscious and just put

a little bit more strength into their fundamental assumptions, although participation would, of course, make up the difference in assumptions under normal conditions.

Mr. GESELL. I have no further questions of this witness.

Acting Chairman REECE. Any questions?

Mr. O'CONNELL. No.

Acting Chairman REECE. Mr. Commissioner?

Mr. HENDERSON. I think it is better to let the record speak for itself.

Acting Chairman REECE. Thank you very kindly.

(The witness, Mr. Marshall, was excused.)

Mr. GESELL. I would like to offer for the record at this time a chart prepared by the staff of the Commission, entitled "Intercompany Meetings re Settlement Options." This chart is based upon documents which have been introduced into the record and shows the number of meetings held at various times between October 10, 1935, and April 22, 1938, for the purpose of discussing settlement options, and the companies in attendance at each of such meetings.

Acting Chairman REECE. The chart is compiled by your own staff?

Mr. GESELL. Yes; from documents in the record and that are in the testimony.

Acting Chairman REECE. It will be admitted.

(The chart referred to was marked "Exhibit No. 799" and is included in the appendix on p. 4881.)

Mr. GESELL. I should also like to offer for the record a memorandum from the files of the Aetna Life Insurance Co., noting discussions at a meeting held December 1, 1937, at the offices of the New York Life Insurance Co.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 800" and is included in the appendix on p. 4882.)

Mr. GESELL. I would like to call as my next witness Mr. Valentine Howell.

TESTIMONY OF VALENTINE HOWELL, VICE PRESIDENT AND ACTUARY, PRUDENTIAL INSURANCE CO. OF AMERICA, NEWARK, N. J.—Resumed

INTERCOMPANY AGREEMENTS—SURRENDER VALUE AND SURRENDER CHARGES

Mr. GESELL. You are actuary for the Prudential Insurance Co., are you not?

Mr. HOWELL. That is correct.

Mr. GESELL. I want to question you for a few moments with respect to surrender values and surrender charges. Are you familiar with steps taken by the principal companies commencing in 1933 for the purpose of increasing surrender charges and reducing cash values on policies?

Mr. HOWELL. In a general way; yes. I might say Mr. Little, my predecessor, was much more active in this movement than I.

Mr. GESELL. He is dead, is he not?

Mr. HOWELL. He is dead; yes.

Mr. GESELL. Will you tell us, using such memoranda from the files of your company as you may require, what the nature of the discussions was at that time, and what the general result achieved was?

Mr. HOWELL. Well, I don't think I can do better than read, as a start, Mr. Little's memorandum of February 15, 1933.¹ You have that.

Mr. GESELL. That is a memorandum entitled "Re guaranteed surrender values," it is not?

Mr. HOWELL. Yes.

Mr. GESELL. I would appreciate your reading that.

Mr. HOWELL. All right [reading from "Exhibit No. 801"]:

During the present depression the phrase "cash position" has come into use, due to the fact that many companies have found that the demands for surrender values and policy loans have exceeded the excess of income over outgo in other directions.

Among the smaller companies in particular, suggestions have been numerous as to ways and means of meeting the difficulty. Typical of these suggestions is one that would permit the life-insurance company to pay one-half of the surrender value in cash and the other half in paid-up insurance. All these suggestions would require legislative action in most of the States, which action is quite unlikely to be forthcoming, due to the feeling that it is part of the duty of the life-insurance companies to be prepared with the surrender and loan values in an emergency.

In the case of our own company the position has not up to the present become so acute, although the possibilities have resulted in our sacrificing interest earnings to some extent in order to invest in Government securities.

The point there being in order keep the company in a liquid position, in order to meet any sudden drain [reading further]:

The possibility of an even worse situation arising in some future depression must be admitted, especially as bills have been introduced in several States which, if enacted, would compel us to grant cash surrender values on industrial policies before the end of 10 years. It is, indeed, not improbable that in the State of Massachusetts the 5-year period, which now applies to domestic companies, may be made compulsory for all industrial policies issued in that State.

Several of the companies whose surrender values have been on an unusually liberal basis, in some instances being 100 percent of the reserve after 3 years from issue, have already reduced their surrender values, and others undoubtedly will follow suit. In our own case, under our ordinary contracts the full reserve is not paid as surrender value until after 10 years from issue, so that we are to a slight extent in a better situation than the companies which have gone furthest in the matter of liberal surrender values. In view, however, of the experience during the depression, it has been thought worth while to consider what might be done to relieve the situation in future within the limits of the present statutory requirements.

While the State laws are by no means uniform as to the matter of minimum surrender values at the present time any surrender value which represents the full reserve reduced by not more than \$25 per thousand of insurance is permissible, except in the early years where the Missouri requirement of a value not less than 75 percent of the reserve on the Combined 4-percent Table would have to be observed.

Under normal circumstances the Prudential's present scale of surrender values is conservative. It is on the whole lower than the Metropolitan's scale, which provides for full reserves after 5 years instead of after 10 years from issue. The right to pay a lower surrender value in times of stress, however, would appear to be justified, as the payment of these surrender values in cash at such period may place a special burden on the company. It would appear reasonable where securities had to be sold at a loss in order to pay an abnormal demand for surrender values to charge the amount of loss to the surrendering policyholders. There is, therefore, a reasonable ground for a reduced surrender value in times of stress.

To be in a position to reduce surrender values in times of stress it is, of course, necessary that the maximum guaranteed surrender value should be the minimum which the company undertakes to pay under all circumstances. If this minimum were to be fixed at the reserve less \$25 per thousand, modified

¹ Entered later as "Exhibit No. 801." See appendix, p. 4883.

as indicated above, with the proviso that for any period, such as a calendar year, the board of directors might provide for the payment of larger surrender values, under normal conditions current surrender values could be paid, but in case of an emergency the minimum guaranteed surrender values, according to the contract, would be all that the policyholder could demand.

Calculations have been made which indicate that in the case of our ordinary department the cash surrenders of 1932, totaling about \$68,000,000, would have been reduced, had the proposed plan been in operation on all contracts, by about \$3,000,000—

Three or five; I think it is three million—

while policies lapsing for extended insurance would have been credited with values lower by about \$2,000,000, making the total saving about \$5,000,000, which in itself would have been a substantial contribution toward our asset losses. In the case of the industrial department, where surrender values at present are relatively somewhat lower, the saving for 1932 would have been about \$4,000,000.

With little hope of legislation permitting increased protection from a cash drain, there does seem to be good reason for the companies providing themselves with the maximum protection that the present state of the laws permits. It probably would not be feasible for any one company to start alone along the path indicated, but if the Prudential, jointly with the four large New York companies, adopted the plan, it would unquestionably be followed by many other companies who, at the present time, are very anxious to provide, as far as possible, against a recurrence of the extremely difficult situation which they have suffered from for the last year or two. It is suggested, therefore, that if the plan is felt to be desirable the matter should be discussed with the four other companies indicated to see what possibilities of joint action may exist.

MR. GESELL. I don't believe it will be necessary to read further. I would like to offer this memorandum for the record.

Acting Chairman REECE. The memorandum may be admitted.

(The memorandum referred to was marked "Exhibit No. 801" and is included in the appendix on p. 4883.)

MR. GESELL. The situation as indicated by that memorandum was that the experience of the profession had brought forcibly to the attention of the company the necessity of their maintaining a liquid position?

(The witness nodded in assent.)

MR. GESELL. Also the desirability of their being able to reduce, if possible, the amount of immediate cash drains which they had to anticipate at any given time.

MR. HOWELL. Yes; that is correct.

MR. GESELL. And there didn't appear to be any hope of legislation coming along which would lead the companies out of that situation, so Mr. Little suggested that the five principal companies get together to discuss the matter.

MR. HOWELL. Yes.

MR. GESELL. Why would it not be feasible for the Prudential to have gone ahead with a program of its own without discussing the matter with the other four large companies?

MR. HOWELL. Well, I think the record shows that it is feasible, sir, because ultimately the Prudential went ahead to the extent that it charged—put in considerably higher surrender charges than the others, entirely on its own.

MR. GESELL. As a result of conferences, the Prudential did not go along with the other four principal companies?

MR. HOWELL. That is correct.

Mr. GESELL. That is why I was interested in the statement in the memorandum to the effect that it would not be feasible to go along with the program without consulting the other large companies.

Mr. HOWELL. Well, I think that the event proved that Mr. Little in saying it wasn't feasible, was mistaken. I think Mr. Little would have thought it would have been much more practical if the other companies had gone along; much easier to have effected the change.

Mr. GESELL. The other companies, after all, though they didn't adopt the same basis your company did, increased their charges and reduced their values, did they not?

Mr. HOWELL. I believe so.

Mr. GESELL. So that the action the Prudential took, although it was out of line, was not as much out of line as it would have been had not the other four companies taken some action also.

Mr. HOWELL. That is correct.

Mr. GESELL. So he perhaps had in mind the desirability of keeping on a fairly, as close as possible, uniform basis, so that no single company would have too great a competitive advantage.

Mr. HOWELL. I should judge so.

Mr. GESELL. Were those discussions held?

Mr. HOWELL. I have the vaguest memory of those discussions because I was not present and Mr. Little conducted them. If you have any material there, it might refresh my memory.

Mr. GESELL. Do you recall what the result of the discussions was?

Mr. HOWELL. Just in a general way. I recall there was considerable discussion as to the advisability of increasing surrender charges. I don't know whether it was in any formal meeting. Certainly whenever two actuaries met together, if Mr. Little was one of them, there was apt to be some discussion about it, but ultimately the other companies, I don't think at the same time, increased their surrender charges, and I know that we increased our surrender charges.

Mr. GESELL. Let me get at it this way: Did the Mutual, Equitable, New York Life, and Metropolitan have identical surrender charges and surrender values at that time?

Mr. HOWELL. I don't know, Mr. Gesell.

Mr. GESELL. Subsequent to these conferences they did raise them on a uniform basis, did they not?

Mr. HOWELL. I think they did. I really don't know.

Mr. GESELL. Perhaps, Mr. Howell, the best we can do is simply ask you to identify some memoranda and proceed to the next witness.

Do you recognize this memorandum, dated April 18, 1933, addressed to Colonel D'Olier, as a memorandum prepared by Mr. Little, from the files of your company?

Mr. HOWELL. Yes; I believe he wrote such a memorandum.

Mr. GESELL. The memorandum states [reading from "Exhibit No. 802"]:

During last year, or the present year, six participating companies and three nonparticipating companies have reduced surrender values. The participating companies are Northwestern, Mutual, Massachusetts Mutual, Provident Mutual, National of Vermont, Connecticut Mutual, and State Mutual. All of these companies have adopted a deduction from the reserve of \$16 per thousand for duration of 2 years, \$14 per thousand for duration of 3 years, and so on, so that after 10 years no deduction is made at all.

The three large nonparticipating companies, the Travelers, Aetna, and the Connecticut General, have adopted uniform surrender values which represent

for all of them a substantial deduction from the previous values allowed. These companies reach the full reserve after 15 years' duration, prior to which a deduction of one-third of the reserve, but never less than \$12.50 per thousand or more than \$24.50 per thousand is used. This is modified to a deduction of about \$18 in the twelfth year, \$12 in the thirteenth year, and \$6 in the fourteenth year.

As the attached copy of a memorandum handed to Mr. Gore indicates, we are suggesting decidedly more drastic deductions than those made by the companies named above. Mr. Gore intends to take the matter up with the representatives of the other four large companies in the New York metropolitan area, it is being felt that the new schedule of surrender values would be undesirable unless adopted by at least three or four of the five large companies. If substantially reduced values are adopted by the very large companies, it is almost certain that many of the smaller companies will be glad to follow suit. Indicative of this attitude is a statement from the actuary of the National of Vermont, one of the companies which has made a reduction recently, to the effect that he regards the reduction merely as a step in the right direction, but as long a step as competitive conditions justify the company in taking at this time. The importance of the matter to the companies is, of course, the justification for an effort to secure the desired cooperation.

I wish to offer this memorandum.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 802" and is included in the appendix on p. 4884.)

Mr. GESELL. Do you recognize this memorandum entitled "Guaranteed Surrender Value, Supplement to Memorandum of February 15, 1933," as a memorandum prepared by Mr. Little, which accompanied the previous exhibit?

Mr. HOWELL. Yes; I do.

Mr. GESELL. I wish to offer this in the record.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 803" and is included in the appendix on p. 4885.)

Mr. GESELL. Mr. Howell, did you attend a meeting of actuaries of 22 companies held at the New York Life Insurance Co. on May 18, 1933?

Mr. HOWELL. I believe that I did. Several subjects were discussed. I don't think it was devoted entirely to this particular subject, was it?

Mr. GESELL. It was not. Do you recall one of the subjects discussed at that meeting was the subject of surrender values?

Mr. HOWELL. I think so; yes.

Mr. GESELL. Reading from "Exhibit No. 756,"¹ to refresh your recollection, under the caption "Policy Values," the memorandum of Mr. Flynn states:

There was a long and interesting discussion of proper surrender charges, proprietary of early dividends, and possibility of payment of loans in installments and cash values after a deferred period.

All companies agreed that it would be wise if it were made mandatory by statute that all life policies contain a provision which would give the company the right to defer payment of cash and loan values 1 year, with the possible modification that loans be granted in equal installments during this 1-year period of deferment. A further modification of this which would give the company the right to defer payment of cash values 6 month and of granting loans in monthly installments over a period of 1 year also received the support of the majority of the companies.

An effort was then made to get the consensus of opinion of the participating companies as to proper surrender charges. After many trials there was finally a unanimous vote for a program of surrender charges similar to that adopted

¹ See appendix, p. 4831, at p. 4832.

recently by the stock companies. No date for putting such a program into effect could be arranged, however, as a number of the participating companies felt that there should be a general agreement on early dividends as well as surrender charges. Apparently several of the companies—at least the New York Life, Metropolitan, Prudential, and Mutual Life—will, on January 1, 1934, increase their surrender charges and distribute them through a longer policy period than at present. Some companies, such as the Massachusetts Mutual and Provident Mutual, wanted to delay till fall or until next year which would bring their earliest action to the fall of 1934.

The discussion was frank and thorough so that all actuaries undoubtedly gained by the interchange of ideas. There is a possibility that a further meeting will be held in the course of the next few weeks at which time more progress may be made in bringing the participating companies closer together in the matter of eliminating or reducing early dividends and increasing surrender charges.

Have you anything to add to that memorandum as to what took place?

Mr. HOWELL. No; except that apparently Mr. Flynn was in error when he said the vote was unanimous to adopt uniform surrender charges. We went ahead with our somewhat higher ones.

Mr. GESELL. Perhaps he was referring to the fact that all companies expressed the sentiment that some increase should be made. There was a uniformity on that point.

Mr. HOWELL. I think there was uniformity on that point; yes.

Mr. GESELL. The discussion which took place at that time is recorded in the memorandum of May 19, 1933, and I ask you if you recognize that as a memorandum of Mr. Little.

Mr. HOWELL. Yes; that appears to be his memorandum.

Mr. GESELL. I wish to offer this memorandum for the record.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 804" and is included in the appendix on p. 4886.)

Mr. GESELL. There were subsequent discussions from time to time, were there not, with respect to the desirability of bringing the companies together on this program?

Mr. HOWELL. I imagine there were, Mr. Gesell. I am unable to give you the date and time of them.

Mr. GESELL. "Exhibits Nos. 759 and 761"¹ in the record indicate subsequent discussions.

I ask you now if you recognize this memorandum which is undated, which I show you from the files of the Prudential entitled "Proposed Program Re Premium Rates, Reserve Basis and Surrender Charges."

Mr. HOWELL. I recognize it as having been taken from our files.

Mr. GESELL. Do you know who prepared it?

Mr. HOWELL. I do not. Let me see it again. I imagine from the style Mr. Little prepared it.

Mr. GESELL. He would be the logical person to prepare such a memorandum?

Mr. HOWELL. Yes.

Mr. GESELL. I wonder what was meant in this memorandum in the paragraph on page 3 stating [reading from "Exhibit No. 805"]:

It is proposed to proceed in the matter of surrender values to bring such pressure to bear on the larger companies as will be found practicable, and in our own case it will probably be recommended that if not the full legal surrender charges, larger surrender charges than the so-called compromise charges proposed by the Equitable shall be made.

¹ 1 *Infra*, appendix, pp. 4834-4835.

In passing it may be noted that of 18 companies represented at a previous meeting 17 felt that higher surrender charges were desirable * * *.

What does the memorandum mean, or do you know, when it says:

It is proposed to proceed in the matter of surrender values to bring such pressure to bear on the larger companies as will be found practicable.

Mr. HOWELL. If I could hazard a guess, sir, it would be pressure of conversation. I don't know any other means that would be employed.

Mr. GESELL. Wasn't this the situation, that the Prudential wanted to raise its surrender charges and decrease its values?

Mr. HOWELL. Yes.

Mr. GESELL. They were not so desirous of an entirely uniform program as they were of encouraging the other companies to bring about some increase so that the difference between their charges and those of other comparable companies would be not too large.

Mr. HOWELL. That is so.

Mr. GESELL. I wish to offer this memorandum.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 805" and is included in the appendix on p. 4887.)

Mr. HENDERSON. I gather from your answer about the pressure, Mr. Howell, that you mean there are no sanctions or legal remedies or the like which might be used. It was entirely of a persuasive character, you think, which was meant by the term "pressure"?

Mr. HOWELL. That is so.

Mr. GESELL. Now a basis of surrender charges was prepared as a result of the intercompany conferences, was it not?

Mr. HOWELL. I believe so. I have a document here that sets forth this.

Mr. GESELL. Do you recognize this letter of Dr. Hunter's enclosing such a basis?

Mr. HOWELL. I believe it to be a copy of the letter taken from our files; yes.

Mr. GESELL. And that the attached sheet is the proposed basis, is it not?

Mr. HOWELL. I am unable to say definitely, Mr. Gesell. It is not our basis, of course.

Mr. GESELL. The letter to which I refer states (June 22, 1934, marked "confidential") [reading from "Exhibit No. 806"]:

I am enclosing a memorandum and table dealing with the proposed changes in the basis of surrender charges contemplated for new policies to take effect as of some date in the future. It looks as if four of the larger New York companies will adopt this scale or approximately so and in order to gather together and disseminate any information possible I shall be glad to learn if your company will follow this scale, and if not, what scale it will adopt.

This table is the one referred to?

Mr. HOWELL. The letter speaks for itself and I think the fact that the schedule was found next to the letter is enough indication that it was the one referred to.

Mr. GESELL. It is entitled "Proposed Table of Cash Surrender Values," is it not?

Mr. HOWELL. Yes.

Mr. GESELL. I offer this.

Acting Chairman REECE. It may be admitted.

(The letter referred to was marked "Exhibit No. 806" and is included in the appendix on p. 4889.)

Mr. GESELL. I have no further questions of this witness.

Acting Chairman REECE. Any questions? If not, we thank you very kindly.

Mr. HOWELL. Am I excused, finally?

Mr. GESELL. Yes.

(Whereupon the witness Howell was excused.)

Mr. GESELL. Mr. Hutcheson, will you take the stand?

Acting Chairman REECE. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HUTCHESON. I do.

**TESTIMONY OF WILLIAM ANDERSON HUTCHESON, ACTUARY,
MUTUAL LIFE INSURANCE CO., NEW YORK CITY**

Mr. GESELL. Will you state your full name, please, sir?

Mr. HUTCHESON. William Anderson Hutcheson.

Mr. GESELL. Are you an officer and actuary of the Mutual Life Insurance Co.?

Mr. HUTCHESON. I am.

Mr. GESELL. Are you familiar with the various conferences and discussions which took place among the companies during the period from 1933 to 1935 with respect to increases in cash surrender values?

Mr. HUTCHESON. I know something about them.

Mr. GESELL. Well, will you tell us your recollection of those conferences and discussions?

Mr. HUTCHESON. Well, because of the situation in the early 1930's and large amount of cash surrender values that were being paid, it seemed the proper time to look into the surrender charges and we—after a number of conferences—came to the conclusion that we should have considerably larger surrender charges than we had had for some years, on our policies, and our company adopted a scale of a maximum surrender charge, the third year \$25 a thousand and minimum of \$10, which tapered off on the sixteenth year, seventeenth, eighteenth, and nineteenth, to \$8, \$6, \$4, and \$2, and no surrender charge thereafter.

Mr. GESELL. Was that scale in accord with the scale adopted by other of the large companies in New York?

Mr. HUTCHESON. Yes; that was the same scale for those years as was adopted by the Equitable and the New York Life, and the Equitable and the New York Life of course give cash surrender values at the end of the second year, which we do not, and so that in that respect we differed; and also they differed a small fraction of a dollar.

Mr. GESELL. Did your company and those other two companies have a uniform scale prior to these conferences?

Mr. HUTCHESON. We had.

Mr. GESELL. Had that been a matter of chance or had that been discussed and been the result of previous conferences?

Mr. HUTCHESON. Well, it had been in force since 1908, and at that time I wasn't in a position to know exactly what happened, but since that time, since 1908 on, we had had, generally speaking, the same surrender values.

Mr. GESELL. Did these changes which resulted bring the companies a little closer together than they had been before, or keep them on about the same level?

Mr. HUTCHESON. I don't think closer together; closer together in part.

Mr. GESELL. More uniform?

Mr. HUTCHESON. Well, they were just as uniform before because they had the same surrender charges, so I don't think in that respect it made any difference.

Mr. GESELL. Did you feel on behalf of your company that in making the change it would be desirable if the other two companies also made the change?

Mr. HUTCHESON. I am not going to answer you directly first, if I may get around. I felt it was very desirable that we should make the change we did, and I was very glad that the other two companies also agreed that they thought the same as I did.

Mr. GESELL. Well now, will you try to answer me directly with that explanation? Was it your interest to bring all the companies into a harmony on this proposition, or did you go ahead and change your surrender charges and values without regard to the action of the other companies?

Mr. HUTCHESON. We were in conferences and talked of it and we gradually arrived at the same conclusions, that these surrender charges were the proper ones for the three companies to charge.

Mr. GESELL. Were there differences on the part of the actuaries present at the early conferences which were harmonized through subsequent conferences?

Mr. HUTCHESON. It seems so, from the evidence just given, but I don't remember the details.

Mr. GESELL. I take it the fact that you did have to have several discussions would indicate that there was not complete agreement at the time you first met?

Mr. HUTCHESON. Agreement—I want to call your attention to that word. In what sense do you use that word just now?

Mr. GESELL. Complete unanimity of opinion as between the three actuaries present.

Mr. HUTCHESON. Complete unanimity of opinion; no.

Mr. GESELL. And as a result of the conferences the actuaries of the three companies did reach such unanimity and make independent recommendations accordingly to their own companies?

Mr. HUTCHESON. That is right.

Mr. GESELL. Were you present at some of the meetings which were held; were a larger number of companies represented?

Mr. HUTCHESON. I was.

Mr. GESELL. Is it correct to say that as a result of those meetings and other discussions a general movement throughout the industry for increased surrender charges and reduced values was initiated?

Mr. HUTCHESON. It was certainly suggested to the actuaries and companies. Of course, those meetings were not companies; they were actuaries of the companies, but officers of the companies. They were actuaries and they were acting in their own capacities until such time as they decided to bring the thing to their trustees. Of course, this report of the committee on cash-surrender values, of the American

Institute of Actuaries, of October 1933, goes to the point. It shows really that the surrender charges, even the surrender charges that we have now, are very, very much less than they are in any of the foreign countries covered by this pamphlet.

Mr. GESELL. I show you a memorandum entitled "Surrender and Loan Values" and ask you if this is a memorandum which you prepared at about this time, presenting the attitude of the companies and the reasons why your company should adopt the new basis?

Mr. HUTCHESON. I should say it was from the look of it. I guess that was taken from my file.

Mr. GESELL. Do you recognize it?

Mr. HUTCHESON. I recognize it as being taken from my file.

Mr. GESELL. I wish to offer this memorandum for the record.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 807" and is included in the appendix on p. 4890.)

Mr. GESELL. Now one of the matters discussed was whether or not there should be a provision in the new policies which would enable the company to delay for a period of 6 months before paying the cash value.

Mr. HUTCHESON. That is so.

Mr. GESELL. Had there been such provisions in most of the policies prior to the discussions?

Mr. HUTCHESON. I don't know about most, but some.

Mr. GESELL. As a result of the conferences would you say that there was more unanimity of opinion on that point and that more companies included that provision in their policies?

Mr. HUTCHESON. Without checking up I should say "Yes." I think every one—this is my recollection; I have no data in front of me to tell me whether I am right or not—but my recollection is that every company thought it was very desirable. Perhaps I am wrong in that.

Mr. GESELL. Your memorandum states, on page 2, with respect to that [reading from "Exhibit No. 807"]:

The Federal banking holiday of March 1933 was followed by numerous State embargoes on cash values and loans. Had it not been for these embargoes many life companies would have gone under and once this had happened there is no saying where it would have stopped. Depressions and panics happen more or less periodically, and in order to be in a better position to meet any such occurrences in the future the actuaries of the above 20 companies have been in conference from time to time during the last 12 months.

It was the practically unanimous opinion of the representatives of all of these 20 companies that future policies should contain a clause giving the companies the right to delay paying the cash value or making a loan (except to pay premiums to the company) for 6 months. The right would, of course, not be exercised except in emergency and it could then be exercised without the necessity of State embargoes.

Your memorandum goes on to state that many companies had provisions for 90 or 60 days, and I gather from that that this 6-month period was an extension of the customary policy provision with respect to this?

Mr. HUTCHESON. And it was within the provisions of the New York insurance law which permits companies to put in a 6-month delay period.

Mr. GESELL. Your feeling was, I take it, that the heavy cash drains which you had experienced during the depression made it advisable to put this protection into the policies?

Mr. HUTCHESON. Yes.

Mr. GESELL. Referring to page 4 of the memorandum, I want to call your attention to this portion [reading further from "Exhibit No. 807"]:

The two large New York companies which have the same premium rates as ours and which at present have the same scale of cash values as ourselves—the Equitable and the New York Life—are about to adopt the new scale of surrender charges. These two companies are perhaps our most frequent competitors because of the number of their agents.

The two large industrial companies—the Metropolitan and the Prudential—at present have smaller surrender charges than ours and are about to adopt even higher scales of surrender charges than those proposed.

The three Connecticut nonparticipating companies—Aetna, Travelers, and Connecticut General—are adopting higher surrender charges than those proposed, and are extending the period of such charges from 14 to 19 years.

Skipping a portion of the memorandum, you state:

The two Canadian companies—Canada Life and Sun—will adopt a scale of charges at least as high as the proposed new scale.

Then at the very end of the memorandum you state [reading further from "Exhibit No. 807"]:

In the case of the proposed return to more conservative surrender values, the actuaries of the seven large companies—

Mr. HUTCHESON. May I ask what page that is on?

Mr. GESELL. Page 6—

Aetna, Equitable, Mutual, New York Life, Metropolitan, Prudential, and Travelers—first of all held many conferences. The scale of proposed surrender charges is a compromise between the wishes of some of these seven, who wanted the maximum surrender charge of \$25 a thousand continued during the lifetime of the policy, and of the others, who felt that because of the comparatively small proportion of policies kept in force for 20 years, the surrender charge might be terminated at the end of the twentieth year.

The other 13 companies mentioned above were brought into the later conferences, but it was felt that, as a number of them had so recently adopted the new scale of surrender charges mentioned above, it was improbable that they would be prepared to make another change immediately.

With the adoption by the larger companies of the proposed scale, it is anticipated that some, at least, of these other companies will follow suit before very long.

The 18 United States companies represented in these conferences were all eastern companies, but the companies of the West and South have taken up the same question. These companies are represented by their actuaries in the American Institute of Actuaries, and at the October meeting of the institute a report by a committee on cash-surrender values was submitted which recommended much higher surrender charges than those at present effective in these other companies.

It may therefore be said that there is a general movement throughout the United States, and Canada as well, to go back to a more conservative scale of cash values than those now guaranteed in present contracts.

Would you say that those portions of the memorandum which I have read summarize the results of the conferences which took place during this period?

Mr. HUTCHESON. Partly. It summarizes what, in my opinion, was the result of the conferences, and which I heard otherwise about those American Institute companies.

Mr. GESELL. What you had learned from other sources?

Mr. HUTCHESON. Other sources. I wasn't ubiquitous and I don't know everything that was going along, but that was my general impression. Now, this statement was written by me to inform the officers of the company who were interested in this, what I was about to recommend practically. I went to those conferences as actuary of the Mutual. I was called as actuary of the Mutual. I went there and I expressed my own opinion. I don't think I consulted with other officers in the company until I had made up my mind when the conferences were over, and then I presented this memo for the information of the officers of the company who were interested, and the officers of the company who were interested would be the president and the manager of the agencies, principally. There may have been others, too. That is how this came into being.

Mr. GESELL. Why was it necessary for the insurance industry to go through such a thorough overhauling on surrender charges and surrender values?

Mr. HUTCHESON. Because of the financial situation at that time.

Mr. GESELL. Will you explain that a little more?

Mr. HUTCHESON. Now, take here, I have a statement of the insurance, the cash values which were paid by this company.

Mr. GESELL. By the Mutual?

Mr. HUTCHESON. The Mutual Life alone. In 1930—I am only going to read in odd millions because you can put in the rest yourselves—in 1930 there were thirty-million-odd; in '31, 42 millions; in '32, 70 millions; in '33, 89 millions. Now there is a jump of nearly three times.

Mr. GESELL. Those are sums paid out?

Mr. HUTCHESON. Paid out as cash values by the company, and that suggested to us, of course, that we had better look into the cash-surrender values more thoroughly than we had done recently, and as a result we decided that the surrender charges were much smaller than they should be; and the surrender charges are not, as I read in the newspapers as had been reported here the other day, as bookkeeping entries. I believe one of your witnesses said they were bookkeeping entries. I don't know where he got that idea, but it isn't any actuary's idea and it isn't a correct idea.

Mr. GESELL. We had better keep to the issues here.

Mr. HUTCHESON. That is all right, but I wanted to interpret that because some of the committee might have gotten it into their heads that it was a bookkeeping entry. I didn't see the whole thing. I only saw it in the newspapers, and perhaps I am incorrect in my impression.

Mr. GESELL. Were there any other factors contributing to this situation, Mr. Hutcheson? Would it be fair to say that the companies had been too liberal, due to stress of competition?

Mr. HUTCHESON. Well, they had been too liberal, and you can hardly say the stress of competition, can you, recent competition, since it has been going on in our case since 1908.

Mr. GESELL. I was prompted by a portion of your memo which I will read you. You say [reading from "Exhibit No. 807"]:

Shortly after the enactment of the New York insurance laws of 1906, which required, *inter alia*, that all policies issued thereafter guarantee loan values, a number of other States enacted similar laws, some of them requiring cash values as well as loan values.

The provision of the New York law was that the loan should not be less than the policy reserve less a maximum surrender charge of \$25 per \$1,000 insured; the provisions of the other State laws were in many cases in line with this.

Another provision of these New York laws, namely, that of limiting the expenses for new business, put the companies in an entirely different position, by reducing expenses and thereby increasing dividends to policyholders.

As a result of these changes, competition arose amongst the companies in the matter of cash values, and the companies did not awake to the fact that these cash values had gone too far until the depression hit us a few years ago.

With some exceptions, the small companies follow the larger companies, and when any conservative action is taken the larger companies have to lead the way.

I gather from that, then, that it was the depression which called forcibly to your attention the fact that the companies had been, prior to that time, too liberal in their cash value program.¹

Mr. HUTCHESON. Too many people were taking advantage of the cash values and the loan values contained in the policies.

Mr. GESELL. You say "taking advantage"; they were exercising contract rights.

Mr. HUTCHESON. I stand corrected.

Mr. GESELL. It is really a question of the policies being too liberal in their terms from your point of view.

Mr. HUTCHESON. You see, there is an increase of 300 percent in 4 years, was it, and that made us investigate the matter, look into it, but we didn't need to look into it very far before we decided we had gone too far before.

Mr. GESELL. Having found that you had gone too far, you then felt the most desirable procedure to follow would be for you to get together and discuss your problems and as near as possible agree upon a table of increases?

Mr. HUTCHESON. I have been in the insurance business and have been a student of its history for over 50 years, and it has been the custom for over 100 years for actuaries in England and Scotland—and I come from Scotland as my accent testifies—to get together and discuss their problems. Consequently, when I came here 40 years ago it was quite natural that I should think of our getting together—never thought of anything else—and since the Actuarial Society was started 50 years ago the actuaries of the various companies have gotten together. Before that they didn't know each other hardly except in some cases. During the last 50 years the actuaries here have been getting closer and closer together. They have this Actuarial Society which meets twice a year. It consists of a very large number of members nowadays, and of course a number of them are junior members who are just out of college a few years and they are not managing the company, and we felt the necessity for getting together in this sort of a way amongst the seniors who had the matters to decide in their hands or to recommend in their hands, and that is why we got together.

Mr. GESELL. Of course, as far as the English experience is concerned I can't be much of an authority, but I noticed in looking at the reports the other day on annuity rates, for instance, a very wide disparity among the companies as among annuity rates, as opposed

¹ In this connection see also "Exhibit No. 808," which was entered later and appears in the appendix on p. 4894.

to what we have in this country as a result of the conferences, a very close uniformity on those rates.

Mr. HUTCHESON. It depends as to whether you look at this week's rates or last week's rates.

Mr. GESELL. It must be a different kind of getting together.

Mr. HUTCHESON. They jumped there overnight—sent a telegraph out saying they were going to change the annuity rates as we have been doing in the recent years. Now, we took a great deal more time in doing it here, but it is the same idea.

Mr. GESELL. Is it a matter of your own personal knowledge that the actuaries of British companies get together for uniform rate programs?

Mr. HUTCHESON. Not for uniform rate programs, but for uniform other things.

Mr. GESELL. I have no further question.

Acting Chairman REECE. Are there any questions? [None.]

We thank you very kindly, Mr. Hutcheson.

(The witness, Mr. Hutcheson, was excused.)

Mr. GESELL. There are no further witnesses today.

Acting Chairman REECE. The committee will stand in recess until 10:30 in the morning.

(Whereupon, at 4:35 o'clock, a recess was taken until 10:30 a. m. Wednesday, June 21, 1939.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

WEDNESDAY, JUNE 21, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:40 a. m., pursuant to adjournment on Tuesday, June 20, 1939, in the Caucus Room, Senate Office Building, Representative B. Carroll Reece presiding.

Present: Representative Reece (acting chairman), Messrs. O'Connell and Brackett.

Present also: Willis Ballinger, Federal Trade Commission; Harry J. Daniels, Department of Commerce; Ernest Meyers, Department of Justice; Thomas Blaisdell, Securities and Exchange Commission, and Gerhard A. Gesell, special counsel, Securities and Exchange Commission.

Acting Chairman REECE. The committee will please come to order. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. Yes; I am.

Yesterday I neglected to offer for the record a memorandum of Mr. Hutcheson, dated May 11, 1934, with respect to surrender values. I would like to offer it at this time.

I might say I discussed this with counsel for the Mutual Life Insurance Co. and they are agreeable to its admission.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 808" and is included in the appendix on p. 4894.)

Mr. GESELL. The first witness this morning will be Dr. Bolt.

Acting Chairman REECE. Do you solemnly swear the testimony you shall give in this procedure shall be the truth, the whole truth, and nothing but the truth, so help you God?

Dr. BOLT. I do.

TESTIMONY OF DR. WILLIAM BOLT, MEDICAL DIRECTOR, NEW YORK LIFE INSURANCE CO., NEW YORK, N. Y.

INTERCOMPANY AGREEMENTS—MEDICAL INFORMATION BUREAU

Mr. GESELL. Will you state your full name for the record?

Dr. BOLT. William Bolt.

Mr. GESELL. You are medical director of the New York Life Insurance Co.?

Dr. BOLT. I am.

Mr. GESELL. How long have you been with that company?

Dr. BOLT. Since January 1926.

Mr. GESELL. Is there an organization known as the Association of Life Insurance Medical Directors of America?

Dr. BOLT. Yes.

Mr. GESELL. Will you tell us a little about that organization?

Dr. BOLT. The kind of an association?

Mr. GESELL. In a general way, what kind of an association is it?

Dr. BOLT. The Association of Life Insurance Medical Directors is composed of the medical directors of certain American and Canadian companies. It meets once a year, usually in October. The Executive Council meets also, in the spring of the year. Its purpose is mainly the study of problems of life-insurance medicine.

Mr. GESELL. How many companies are members of the associations? How many companies are represented through their directors on the association, approximately?

Dr. BOLT. There are approximately 100 companies whose medical directors are members of the Medical Directors Association. Then there are a number of other companies, whose medical directors do not belong to the association, but are invited to the meeting and are allowed to vote in proportion to their numbers and their relationship to the other members in the medical association.

Mr. GESELL. Now, the Association of Life Insurance Medical Directors has various subcommittees, does it not?

Dr. BOLT. Yes.

Mr. GESELL. One of those committees is known as the M. I. B. committee?

Dr. BOLT. Yes.

Mr. GESELL. M. I. B. stands for Medical Information Bureau, does it not?

Dr. BOLT. That is correct.

Mr. GESELL. Will you tell us a little about that committee? I understand you are secretary of it, are you not, Doctor?

Dr. BOLT. Yes. You mean about the bureau itself?

Mr. GESELL. Yes. What the functions of the committee are, first of all, and then how the bureau operates.

Dr. BOLT. The committee itself, which is composed of the medical directors of a number of the member companies, these members being appointed by the president of the Association of Life Insurance Medical Director, administers the Medical Information Bureau.

Mr. GESELL. Now what is the bureau?

Dr. BOLT. Well, possibly the best way to describe the Medical Information Bureau is to read a summary of a memorandum prepared a short while ago, with the contents of which I believe you are somewhat familiar. The formation of the Medical Information Bureau was approved at the annual meeting of the Association of Life Insurance Medical Directors of America, held June 3 and 4, 1902. The function of the bureau is to facilitate the interchange, between medical directors of life-insurance companies, of information bearing on the insurability of risks. The purpose of this interchange is to protect life-insurance companies and the policyholders against fraud and misrepresentation.

Mr. GESELL. This bureau then is sort of a central clearing house for information concerning policyholders' health; is that correct?

Dr. BOLT. That, in substance, is correct.

Mr. GESELL. The companies report to the bureau cases of impairment as they come across them in the examination of policyholders or prospective policyholders?

Dr. BOLT. That is correct.

Mr. GESELL. Does the bureau have regular bylaws?

Dr. BOLT. The bylaws that govern the bureau are contained in the bylaws of the Association of Life Insurance Medical Directors.

Mr. GESELL. Do you recognize this document as the bylaws which govern the operations of the bureau?

Dr. BOLT. I do.

Mr. GESELL. I wish to offer these bylaws for the record.

Acting Chairman REECE. They may be admitted.

(The document referred to was marked "Exhibit No. 809" and is included in the appendix on p. 4896.)

Mr. GESELL. Do you recognize this document which I now show you as a list of the regular and associate members of the bureau?

Dr. BOLT. I do.

Mr. GESELL. I wish to offer this for the record.

Acting Chairman REECE. It may be admitted.

(The list referred to was marked "Exhibit No. 810" and is included in the appendix on p. 4897.)

Mr. GESELL. Can you tell us, Dr. Bolt, how many companies are members? Am I correct in saying there are 98 regular members and 116 associate members?

Dr. BOLT. That is correct. I think there are a couple of companies that are in the course of application; I can't say that they are members yet. That would bring the associate membership up to about two more than that figure.

Mr. GESELL. What is the standard for admission to the medical information bureau? What must a company do to become a member of it?

Dr. BOLT. The company applies to the secretary of the Medical Directors Association. That application is referred to a subcommittee which investigates the organization and makes its report to the executive council at the next meeting.

Mr. GESELL. Are there any qualifications as to the length of time the company has been in operation; the amount of assets it has?

Dr. BOLT. Yes; they are laid down in the bylaws which you have already submitted.

Mr. GESELL. And there are two types of membership, are there not, the regular and the associate?

Dr. BOLT. That is correct.

Mr. GESELL. Have there been in the past companies which have applied for membership to the bureau which have been turned down?

Dr. BOLT. Yes. Perhaps I should explain that by saying that in many cases companies are deferred or postponed until more information has been received. There have been occasionally companies whose application has been definitely turned down.

Mr. GESELL. Can you tell us some of the reasons which have prompted the turning down of any particular member?

Dr. BOLT. Well now, I am speaking in general because I am not a member of the subcommittee; that is, I am the secretary of the subcommittee which investigates these companies but I do not act or vote on that committee. In general, an application may be postponed

or even declined if there is reason to believe that the company is not stable or hasn't been in existence long enough to prove that it is going to remain as a life insurance company. Sometimes advice is received that possibly the people who are in charge of the company are not looked on perhaps as favorably as some others. There is also the question of the medical department, whether it is efficiently administered in the opinion of the committee investigating the organization.

Mr. GESELL. How many companies would you say had been turned down per year; a negligible number, is it?

Dr. BOLT. Not very many. I mean, offhand—of course this is subject to correction—I have been on this M. I. B. committee I think about 8 years, and I can remember only two or three companies in that time that have been permanently denied membership.

Mr. GESELL. Will you tell us the mechanical operation of the bureau, how companies report to the bureau, the type of information which they report, and what procedure they must follow to obtain information from the bureau?

Dr. BOLT. The companies report impairments to each other through a separate organization—the Recording and Statistical Corporation. Reports are made in the form of code symbols which include impairments, conditions, and clinical tests which may affect insurability. The impairments to be reported are designated in the official list of impairments, brought up to date and revised in 1935, and are reported under the instructions given in this official list and supplemented by regulations in the M. I. B. procedure. The rule provides that all cases which present one or more of the impairments named in this official list shall be reported, entirely without regard to whether the reporting company accepts, suspends, or declines the risks or offers some modified plan of insurance. The action of the reporting company with regard to any case is not regarded as a proper subject of discussion or inquiry. The fact that an impairment is reported is not necessarily an indication that the application has been declined by the reporting company. Frequently the reporting company issues insurance notwithstanding the impairment.

Upon receipt of the reports from the companies the Recording and Statistical Corporation prints a card for each individual and distributes a copy of this card to the member companies. This card contains the individual's name and other means of identification, such as the date of birth and occupation, and the code symbol or symbols.

The rules also provide that the facts of record in the bureau, and the meanings of the code symbols employed, shall not be communicated to the Recording and Statistical Corporation, nor to any individual not specifically authorized to receive them. Provision is made for substitute reports by the same company or other companies indicating that an impairment previously reported no longer exists, if later investigation shows this to be the case.

Mr. GESELL. Let me see if I understand how this operates. Let's start with a policyholder. We will call him Mr. Jones. I go to Mr. Jones to sell him a life-insurance policy and he has a medical examination. I am a member of this M. I. B. Do I report to the M. I. B. the results of that medical examination?

Dr. BOLT. You say you go to Mr. Jones and you are a member. The agent is not a member.

The application comes in to the company with the medical examination.

Mr. GESELL. And the company reports then the results of the medical examination to the M. I. B. if any impairments are disclosed?

Dr. BOLT. That is correct.

Mr. GESELL. Assuming that no impairments are disclosed, the company can write to the M. I. B. and say, "Do you have any information on policyholder Jones?"

Dr. BOLT. Well, actually the company would have in its own files a previous record on that man Jones if any such record had been compiled within the previous 5 or 10 years, depending on the type of impairment.

Mr. GESELL. You mean the M. I. B. sends to each of the member companies a copy of a card for each policyholder?

Dr. BOLT. For each impairment on any applicant as soon as it is received.

Mr. GESELL. Then, if I want more information concerning that policyholder, can I from the card tell which company reported the impairment? How do I find out the name of the company that reported the impairment?

Dr. BOLT. The only method, assuming that the man himself in his application did not reveal insurance experience with some other company, is for the company that is making the inquiry to send a request for further details through the Recording and Statistical Corporation to the reporting company, and that company is requested to reply directly to the company that asked for the information. Of course, that original company has it within its own discretion as to whether or not they reply and reveal their own identity and give additional information.

Mr. GESELL. As a practical matter, I assume they do reply.

Dr. BOLT. Yes. There are a few cases where they don't.

Mr. GESELL. And the company writing the policy gets in touch with the previous company which reported the impairment by asking the recording bureau to have the company reporting the impairment to get in touch with them?

Dr. BOLT. That's it, or asking that company to send further details.

Mr. GESELL. How many names are there on file at the present time in this bureau?

Dr. BOLT. Of course, I can't tell you how many there are to date, but approximately 6,700,000 the last time I asked, which was a month or so ago.

Mr. GESELL. There is a daily reporting, is there not, by the companies?

Dr. BOLT. A daily reporting by the companies and, of course, daily elimination. Because some people die and their records are pulled. Certain impairments are removed at the end of 5 years, and all impairments are removed from the master file at the end of 10 years.

Mr. GESELL. But for these 98 regular companies and the 116 associate member companies you have on file cards for every policyholder where some impairment appears in the course of the examination of that policyholder for an application for insurance?

Dr. BOLT. Yes; with this modification, as I say. The man may be a policyholder today and have had an impairment 6 years ago. If it

happens to be an impairment that we think of no importance after 5 years, perhaps that record would have been destroyed.

MR. GESELL. Yes; but this in effect is a system which enables each company which belongs to profit by the medical experience of any other company which also belongs, with respect to the particular policyholder involved.

DR. BOLT. Yes; I think that is correct.

MR. GESELL. Now, we have been talking about impairments. What are impairments? What are the kind of things that are reported on these cards?

DR. BOLT. Mainly, of course, conditions of the body that in the opinion of the medical directors affect the man's insurability.

MR. GESELL. Well, you mean that—

DR. BOLT. Heart murmurs, history of tuberculosis, for instance, history of cancer; anything of that nature.

MR. GESELL. Overweight?

DR. BOLT. Yes; not necessarily minor degrees of overweight.

MR. GESELL. Social disease of one sort and another?

DR. BOLT. Yes.

MR. GESELL. Do the cards contain any information of a personal character concerning the policyholders which may not be strictly medical in nature, which may affect his insurability, say drunkenness or things of that sort?

DR. BOLT. Of course, any information that affects the insurability of the individual, whether of that nature or definite medical conditions, may be reported in such a way as to warn the next company that the man applies to that they should investigate and check up that possibility.

MR. GESELL. And I understand that information is all set up on a code system?

DR. BOLT. That is correct.

MR. GESELL. So that if anyone should chance to come across a card, all he would see would be a bunch of symbols on the card, which he couldn't translate without the code?

DR. BOLT. He couldn't translate without a key to the code.

Acting Chairman REECE. Mr. Gesell, does the index include applicants for insurance as well as policyholders? That is, if a party makes application for an insurance policy and is turned down, does that information go into the files and remain for a period of time?

DR. BOLT. Yes. Perhaps I could make it clearer. Not all policyholders appear on this list. Only the names of policyholders who may have an impairment.

MR. O'CONNELL. Doesn't that include a list of people who might not be policyholders at all?

DR. BOLT. It includes a list of people who have applied for insurance, irrespective of whether they are policyholders of that company or of any other company.

MR. O'CONNELL. So the index does not include all policyholders and all the people in the index are not policyholders?

DR. BOLT. That is correct.

MR. GESELL. We have talked so far about the reporting of information which was obtained in connection with an application for insurance, Dr. Bolt. What about this situation? Suppose one of the com-

panies has a little country doctor out in some small town and he knows that John Jones is a policyholder, or prospective policyholder, and in the course of an examination he notices something seriously wrong with that particular person's health. Does he, as a matter of course, report that to the M. I. B.?

Dr. BOLT. You mean a man goes to his attending physician?

Mr. GESELL. Yes.

Dr. BOLT. And that attending physician happens to be an examiner for some life-insurance company?

Mr. GESELL. Yes.

Dr. BOLT. He is not called upon to report that unless that man later comes to him, and in his capacity as a life-insurance examiner he examines that man. Then that man presumably would give him the history.

Mr. GESELL. Then the only reporting by the companies is reporting of information obtained directly in connection with an examination of a policyholder or a policy?

There is never any reporting of medical information obtained any other way?

Dr. BOLT. Oh well now, that is not entirely correct, because a man may be applying for reinstatement of his policy. If you say that is applying for a policy, then I presume your statement is substantially correct. I mean it isn't necessary that the man should apply for new insurance.

Mr. GESELL. But it must be in connection directly with an examination by a doctor representing an insurance company that the doctor obtains the information; any other way, he does not report it?

Dr. BOLT. The doctor has no relation to the insurance company and no connection with them, unless he is examining as an examiner for the company at that time.

Mr. GESELL. And then the doctor does not report to his company if he obtains any information which he obtains concerning a policyholder or prospective policyholder which he obtains in some way other than in connection with the writing of insurance?

Dr. BOLT. If it is connected with the writing of insurance the doctor should report it, but I don't see any necessity for his reporting unless it is in connection with insurance.

Mr. GESELL. I don't see any necessity, either. I am asking whether, however, he does in some cases.

Mr. BOLT. I will put it this way, Mr. Gesell: The two-hundred-odd members are all obligated to report any information, irrespective of the method in which they receive it. Now, of course, I cannot say how these different companies may receive this information at all times.

Mr. GESELL. Oh, you mean that as far as the M. I. B. is concerned its contract and agreement and understanding is directly with the company, and the company is obligated to report all information that is concerning a policyholder's impairment to the bureau?

Dr. BOLT. Irrespective of how it obtains the information.

Mr. GESELL. And the bureau does not control or attempt to control the methods by which the individual companies obtain the information concerning the particular policyholder's health?

Dr. BOLT. That is so.

MR. GESELL. So it is quite possible that the companies may be reporting to you from time to time information concerning policyholders which they have obtained from their doctors or investigators or from someone else other than in the regular course of examining a policyholder or prospective policyholder for insurance?

DR. BOLT. That is true.

MR. GESELL. Now, do I understand that all of the companies that belong to the bureau are level premium legal reserve companies?

DR. BOLT. That is one of the requirements in the bylaws.

MR. GESELL. Do you have any reporting system that covers industrial policyholders, holders of industrial insurance?

DR. BOLT. As far as I know—and, of course, I have not had any experience with a company writing industrial insurance—the companies that do industrial business do not report the industrial business to the bureau. Those that I have spoken to about it tell me they don't even check those applications through the bureau.

MR. GESELL. Just as far as you know, the bureau relates to ordinary insurance?

DR. BOLT. That is true.

MR. GESELL. How is it financed, Doctor?

DR. BOLT. Of course, there is no cost for the administration by the committee.

MR. GESELL. You mean the committee serves voluntarily, free of charge?

DR. BOLT. Yes; the various medical directors on the committee. The companies pay to the Recording and Statistical Corporation a certain amount based on the number of cards they receive per year. For instance, one of the regular members, or rather most of the regular members, may receive cards from all over the country and they pay at the rate of so much per thousand cards. Another smaller company doing business in a restricted area, possibly an associate member, may only want the cards from a certain section of the country.

MR. GESELL. In other words, the member companies subscribe either for the entire service or for the service on policyholders resident in particular States and localities?

DR. BOLT. That is correct.

MR. GESELL. Now, do they pay their fee to the M. I. B.?

DR. BOLT. No; they pay a fee, which is simply a service charge and covers the cost of assembling and distributing the information, to the Recording and Statistical Corporation.

MR. GESELL. And this Recording and Statistical Corporation is employed by the M. I. B. to do this work?

DR. BOLT. Yes; I suppose you would term it that.

MR. GESELL. It is under contract with it, not with the M. I. B., to do that?

DR. BOLT. We have arrangements by which they do this work for us.

MR. GESELL. So that the only expenses involved are the expenses in the mechanical operations of this system?

DR. BOLT. That is correct.

MR. GESELL. The companies subscribe for the service and pay the Recording and Statistical bureau accordingly?

DR. BOLT. Yes.

Mr. GESELL. Supposing I was a company and decide to take the entire service for a year. What would it cost me?

Dr. BOLT. Well, of course, it depends on the number of cards issued that year. I think—I haven't the figures with me—approximately 5 to 6 thousand dollars for the cards.

Mr. GESELL. That would be the entire country?

Dr. BOLT. The entire United States and Canada.

Mr. GESELL. Would there be any other expenses that I would have to pay?

Dr. BOLT. Now, that would depend on the company. I mean, some companies ask the Recording and Statistical Corporation to do additional work for them. They may ask them to supply certain forms; they may sometimes say they want quick action on a report and telegraph for it. Well, they pay the additional cost themselves for telegraphing reports and so on.

Mr. GESELL. But for the cards themselves?

Dr. BOLT. For the cards themselves, no additional charge.

Mr. GESELL. Costs about 5 or 6 thousand dollars?

Dr. BOLT. Approximately that; a small company, of course, might only pay 3 or 2 hundred dollars a year.

Mr. GESELL. How has this thing been running, Dr. Bolt? How many impairments have been reported a year to the bureau? It has run a little under a million a year, hasn't it?

Dr. BOLT. Put it this way. There are probably between three-quarters of a million and a million new cards printed each year, but not all of those indicate additional reports. I mean some cards are substitute cards, corrected cards, or something of that nature. For instance, a company may today receive a report as a man may go to the doctor for the company and say, "I had an ulcer of the stomach." All right, the company reports an ulcer of the stomach. Well, it may be the next month, on further investigation, he may find that it was not an ulcer actually in the stomach but an ulcer of the intestine, so the company will recall that first report and replace it with a more accurate one. That is a substitute or corrected card, don't you see?

Mr. GESELL. So there may be about three-quarters of a million impairments reported a year; some of those may be duplications of impairments already reported?

Dr. BOLT. Yes.

Mr. GESELL. What is the purpose of this bureau, Dr. Bolt? Is it to eliminate any possibility of one company taking on an inferior grade of risk?

Dr. BOLT. No.

Mr. GESELL. It has that result, doesn't it?

Dr. BOLT. That would be a matter of opinion, I think. The whole purpose of the thing is so that the company shall not assume a risk without having information about an impairment that some previous company may have found. What they do with that is up to that company itself.

Mr. GESELL. It must result, must it not, however, in eliminating uninsurable people from any company and raising the standard of risk taken by the member companies at large?

Dr. BOLT. Well, within reasonable limits that is true. I mean you use the term "uninsurable risk." A man may be considered not

insurable by one company today and yet another company may consider him insurable, and a man who is uninsurable today may in the course of a year or two be insurable.

Mr. GESELL. One of the results, regardless of those slight differences, is to prevent companies from taking bad risks, isn't it?

Dr. BOLT. Oh, yes.

Mr. GESELL. And it is to make available to each member company the medical experience of all the other companies with that particular risk where that medical experience has been at all unfavorable?

Dr. BOLT. Yes.

Mr. GESELL. I have no further questions.

Acting Chairman REECE. Are there any questions? Thank you very kindly, Doctor.

Mr. GESELL. I will call Mr. Murphy.

TESTIMONY OF RAY D. MURPHY, VICE PRESIDENT AND ACTUARY, PRUDENTIAL INSURANCE CO. OF AMERICA, NEWARK, N. J.—
Resumed

INTERCOMPANY AGREEMENT—"JUMBO RISKS"

Mr. GESELL. You have already been sworn, have you not?

Mr. MURPHY. Yes.

Mr. GESELL. Mr. Murphy, are you familiar with the committee known as the Committee Underwriting Large Risks?

Mr. MURPHY. I am.

Mr. GESELL. Am I correct in saying that that committee was formed in 1929 at a joint meeting of Medical Directors' Association and the Actuarial Society?

Mr. MURPHY. That is the first time that such a possibility was discussed. It wasn't actually formed at that time.

Mr. GESELL. First discussions at that time?

Mr. MURPHY. Yes.

Mr. GESELL. Will you tell us a little about what this committee is and why discussions with respect to its formation were held, and what purposes it was meant to achieve?

Mr. MURPHY. Just prior, a few years prior, to the meeting in May 1929, when this was discussed very broadly between medical directors and actuaries the companies had been increasingly concerned with the fact that on the very large risks, frequently termed slangily "jumbo risks," the mortality was rising and was considerably above the general mortality of the company, even with due regard to age distribution. It was therefore evident that this larger business was throwing an extra cost onto the policyholders in general and it was decided in view of the rather broad experience of that kind between a large number of companies, that the medical directors and the actuaries were sufficiently concerned about it to get together and discuss why it was, and what could be done to prevent it.

That conference finally, after discussion, suggested that a smaller joint committee of doctors and actuaries be formed to study further the causes of the high mortality. There was undertaken quite an extensive study both from the general mortality standpoint and from the standpoint of analyzing the early death claims for very large

amounts to see what could be discovered in the study of them, as to the cause.

That study resulted in certain evidence of causes coming out. For one thing, it was discovered that there was an abnormally high death rate among the very large risks—I am now talking primarily about people who are insured for, say, \$100,000 or more; there was a very high death rate from heart disease, far more than is normal among policyholders. An examination of the cases indicated a very clear presumption that there were many impairments existing in the hearts of those people at the time they were insured, but the rather superficial brief examination to which the ordinary policyholder is subjected did not bring out those impairments, because they did not use sufficiently intensive methods.

It also seemed pretty clear that there was pretty strong antiselection, as we term it in the business, going on; in other words, that mixed in with it there must be a good deal of concealment of physical histories. In fact, in some of the cases we could trace down physical histories which had not been disclosed in answer to the questions on the medical examination.

We also found that the representations in many of these large death claims which had occurred within the first few years of issue, as to the total insurance in force on the life and the amount of insurance being applied for on the life in a number of companies, as is commonly the fact in those large risks, were not being accurately disclosed to the companies. In other words, there were misrepresentations taking place likewise with respect to the total risk that the companies as a whole were being asked to assume.

Now, that was quite important, because studies that had been made in the death rate among those large risks disclosed that the mortality did not depend upon the amount of insurance in any one company, but there was a clear correlation between the mortality and the total amount of insurance existing on the life in all companies.

MR. GESELL. You means that the more insurance these fellows had the quicker they died?

MR. MURPHY. The higher the death rate.

MR. GESELL. I won't ask you for the actuarial explanation of that, but that seems a little odd on the face of it.

MR. MURPHY. Well, it deals, as I say, largely with what we insurance men are apt to call antiselection. That is, the more incentive there is to act contrary to the legitimate insurance interests of the company, the higher the incentive in amount, the more you ordinarily get, well, some semi-innocent and some perhaps not so innocent failures to disclose in answer to the insurance companies' questions.

MR. GESELL. You mean, to put it so I understand it, that a man who thinks that he is going to die shortly, or is in poor health, is liable to make many efforts to get a great deal of insurance, and if he has to engage in a certain amount of misrepresentation to get it, that still doesn't deter him?

MR. MURPHY. No. As the ante goes up the likelihood of it occurring becomes greater.

It was also disclosed in those investigations that one thing that the companies should do was to intensify their investigations with respect to the financial risk and what we call moral hazard of the risk. That

is, his general business conditions, whether certain worries are hanging over him, and so on. Based on those findings, which are thus summarized, the committee that was considering the question concluded that if they were to prevent the high extra mortality which was, of course, going actually as a cost to the general body of policyholders, they ought to be in a better position to prevent conscious or unconscious misrepresentation by setting up the necessary mechanical procedure to prevent it.

Mr. GESELL. Am I correct in saying that as a result of those discussions and conferences a series of rules was adopted by a group of companies interested in the problem?

Mr. MURPHY. That is correct.

Mr. GESELL. Which resulted in more rigid medical examinations and resulted in more extensive inquiry into the background of each particular applicant?

Mr. MURPHY. That is correct.

Mr. GESELL. In addition, was there not an arrangement worked out through the recording bureau similar to that that Dr. Bolt described as working in the case of the M. I. B. for the reporting of large risks by the member companies?

Mr. MURPHY. Well, somewhat similar to it, and somewhat dissimilar. There was worked out an arrangement whereby the companies in this group would record at one central point the amount of insurance that was in force that was taken in blocks of \$50,000 or more, so that approximately we could check the accuracy of the applicant's statements with respect to the total amount of business shown, which was proving to be such an important factor, and particularly when related to his finances.

Mr. GESELL. I show you a sheet entitled "Underwriting rules recommend, corrected as of April 1, 1936," and ask you if that is the set of underwriting rules with respect to underwriting of large risks which are now in effect.

Mr. MURPHY. That is the one that certainly was in effect on April 1, 1936. I think any amendments that might have been made in the last 3 years would be purely minor matters of administration.

Mr. GESELL. I wish to offer these rules for the record.

Acting Chairman REECE. They may be admitted.

(The rules referred to were marked "Exhibit No. 811" and is included in the appendix on p. 4901.)

Mr. GESELL. Do you next recognize this document, dated April 30, 1939, signed by yourself as chairman of the executive committee on underwriting large risks, as a report of that committee for March 31, 1939?

Mr. MURPHY. Yes; that is the annual report of the executive committee to the companies.

Mr. GESELL. I wish to offer that for the record.

Acting Chairman REECE. It may be admitted.

(The document referred to was marked "Exhibit No. 812" and is included in the appendix on p. 4902.)

Mr. GESELL. I next show you a letter dated August 18, 1932, listing the companies which were members of the recording bureau as of that date, and ask you if that is a correct list of the membership in this agreement for underwriting large risks at that time.

Mr. MURPHY. I believe it was.

Mr. GESELL. Have there been any substantial changes in that list?

Mr. MURPHY. No substantial changes as I remember it; I think one additional company came in and three withdrew.

Mr. GESELL. The list includes, does it not, all of the principal companies?

Mr. MURPHY. No. Of course it depends on what you call a principal company.

Mr. GESELL. There are some 38 or 39 companies here.

Mr. MURPHY. If I may look at it here, I think there is one fairly prominent company that is not in that list.

Mr. GESELL. What company is that?

Mr. MURPHY. The Mutual Life Insurance Co. of New York.

Mr. GESELL. Other than that, most of the prominent companies are members, are they not?

Mr. MURPHY. Yes.

Mr. GESELL. I wish to offer this list for the record.

Acting Chairman REECE. It may be admitted.

(The list referred to was marked "Exhibit No. 813" and is included in the appendix on p. 4903.)

Mr. GESELL. Is there any particular reason why the Mutual Life didn't come into this, Mr. Murphy?

Mr. MURPHY. I don't know, I think they were unconvinced of the necessity of it. I think as I remember it they probably had a little better experience with the larger-sized risks than a lot of the rest of the companies and I think that was probably the basis of the reason for staying out.

Mr. GESELL. What I want to ask you is why it was necessary for the companies to enter into an agreement such as this, to set up underwriting rules and go through all the formalities of a concrete understanding. Wouldn't it have been just as easy for each company, after it had participated in these discussions and gotten a broad outlook on the whole problem, to adopt for its own company such underwriting rules and requirements as it thought desirable?

Mr. MURPHY. I might, if I may before answering this question specifically, just state that the only part of the procedure which was considered, shall I say, definitely to be followed in all cases and precisely, were two: One was this reporting of the amounts of insurance to the recording bureau; and the other was the method of medical examination. You will find, probably, in the record, a good many suggestions with respect to the general phases of underwriting that have always been considered purely suggestive.

Mr. GESELL. I was talking with respect to these rules for medical examinations.

Mr. MURPHY. The very large risk business is handled very largely in what we may call a brokerage manner, that is, it is very common, and has been, to have a man examined for a number of companies at once, and to have copies of that examination sent to the various companies to which various amounts are being applied for simultaneously and then sometimes if one of the companies doesn't issue and another one does, to increase the amount applied for in the company that does.

From a practical standpoint with that large business running, say, \$100,000 in general, and up, it is a very great practical advantage

to have a very concrete understanding among the companies as to what their medical requirements will be, so that when the man is examined it will be under a type of examination that will be quite satisfactory for the use of all of those companies. That is one aspect.

Mr. GESELL. Let me see. If I decide that these large risks were risky risks for my company and that I should look at them with particular care, couldn't I simply say to my medical director that I wanted him to employ such and such methods of examination. He could turn away some of these large risks and they might go to other companies, but why would I have to have any agreement with other companies that they do the same thing.

Mr. MURPHY. Your suggested procedure has actually been adopted by a number of companies over and beyond the examination procedure outlined in these rules. There are several companies, for example, that require electrocardiograms and X-rays of the chest, for example, and blood examinations if necessary, for amounts even smaller than these, so that they have actually operated on that plan. However, I will say this: That, of course, it is also quite desirable for all the companies to have their examination procedure quite thoroughly understood and in what I call the brokerage atmosphere of the large business, there is a much less chaotic condition going on if a large number of companies are using the same examination procedure.

Mr. GESELL. I take it you mean, then, there is less shopping around by the particular policyholder.

Mr. MURPHY. It tends to prevent shopping around and just trading, as it were, on the basis of the actual procedure of examination.

Mr. GESELL. But in your own company, Mr. Murphy, if you had established rules which you thought were adequate and desirable what difference did it make to you whether some of these other companies were harassed by people shopping around for business? I can't see why there has to be an agreement on this thing at all.

Mr. MURPHY. As I said, there are other reasons which I spoke of why an agreement of a definite kind is of very great practical use in a field of business where the same examination is being used so largely by other companies, but I agree with you that as a practical fact, the companies do not like, shall I put it this way, to have, shall I say, business traded on from the standpoint of the mere mechanics of examination, particularly in a class of business where it is being sought to protect the general body of policyholders against the extra mortality on very large amounts.

Mr. GESELL. This, then, would be another instance in the life-insurance business where the member companies, at least, felt that they did not want to compete.

Mr. MURPHY. I think that is correct; yes.

Mr. GESELL. They did not want one company to have a competitive advantage by offering slightly less rigid forms of medical examination on these large risks than another.

Mr. MURPHY. Yes; that is right.

Mr. GESELL. And, therefore, they felt that there were more advantages in an agreement and understanding which would unify the practice of all the companies than for each of them to go on their independent road.

Mr. MURPHY. Yes. I think I can fairly state that the companies that were in this group felt that medical examinations were not a proper instrument of competition.

Mr. GESELL. I have no further questions of this witness.

Acting Chairman REECE. Do any members of the committee have any questions?

Mr. MEYERS. Did the increasing rigidity in the rules apply on a vertical scale, that is to all policyholders, large and small?

Mr. MURPHY. This rule about intensive medical examination applied only to very large risks. For example, when the procedure was started it applied only if the applicant was currently applying in all companies for as much as \$100,000 of insurance, and that would make his total insurance on his life in excess of \$300,000 of insurance. Those were the only cases where these so-called rules would automatically come into play. Of course, if a company got a smaller application and there was some peculiar, indefinite, say, heart history, they would want him more intensively examined to develop whether that was a serious heart history or not, but that would be merely applying the individual case in the medical director's discretion.

Mr. MEYERS. Does the attending physician know the amount of insurance applied for when he examines the applicant?

Mr. MURPHY. It depends on the company's blanks. In our own blanks the examiner for us asks the applicant how much he is applying for, not only to us but to other companies, and how much insurance he has on his life in our company and in other companies. I think that is a fairly common form of practice.

Mr. MEYERS. Can you attach any significance to such a question?

Mr. MURPHY. Yes; it is because of our findings that when you get up into the large amount field, the necessity for safeguards against extra mortality, primarily from fraudulent causes, very much increases.

Mr. O'CONNELL. Just to be sure I understood you correctly, as I understand it, the agreement or set of rules that were worked out embody things that are being done by companies generally, which your company could have done and could do individually and without such an agreement but the result would have been that your company would probably not have been able to get as large a share of that business had you done so, is that correct?

Mr. MURPHY. That may be so; yes. It probably would be so.

Mr. O'CONNELL. It eliminated the competitive advantage of companies having less rigid rules, so I assume the competitive advantage would mean you would get a bigger share of the business.

Mr. MURPHY. And a bigger share of what we considered an undesirable share of business.

Mr. O'CONNELL. Do I also understand that you are interested in protecting the other companies?

Mr. MURPHY. No; we are each interested in protecting ourselves.

Mr. BLAISDELL. If I understand it correctly, Mr. Murphy, the purpose here is to prevent a type of competition among agents where they are apt to say to a large prospect: "Well, now, I can get you by our medical examiners, where this other company wouldn't pass you." Is that correct?

Mr. MURPHY. It may not be the agent. It might be, in the case of a man who was not too ethical, but also we ran into many of these cases where the applicant himself apparently had pretty well sized up the situation by himself.

Mr. BLAISDELL. And he thought he could get by?

Mr. MURPHY. He thought he could get by a simple examination, but if he had to go through anything like an electrocardiogram, maybe the damage to the heart would show up.

Mr. BLAISDELL. And that is the type of thing you have in mind when you speak of fraudulent representations?

Mr. MURPHY. Yes. I don't want to be misunderstood on the use of the word "fraud."

Mr. BLAISDELL. I wanted to get it very clear.

Mr. MURPHY. It is very difficult to say sometimes where you pass the line from semi-innocence, failure to disclose, and that which is fraudulent.

Mr. BLAISDELL. We are very aware of that, Mr. Murphy.

Acting Chairman REECE. We thank you very kindly.

(The witness, Mr. Ray D. Murphy, was excused.)

Mr. GESELL. Mr. Jones.

Acting Chairman REECE. Do you solemnly swear the testimony you are about to give in this procedure shall be the whole truth and nothing but the truth, so help you God?

Mr. JONES. I do.

TESTIMONY OF FRANK L. JONES, VICE PRESIDENT, EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES, NEW YORK, N. Y.

INTERCOMPANY AGREEMENTS—REPLACEMENT AGREEMENT

Mr. GESELL. State your full name for the reporter.

Mr. JONES. Frank L. Jones.

Mr. GESELL. Are you an officer of the Equitable Life Assurance Co.?

Mr. JONES. Vice president.

Mr. GESELL. How long have you been with the company, Mr. Jones?

Mr. JONES. Since 1906. I have been an officer for 11 years.

Mr. GESELL. What particular phase of the business of the company are you responsible for?

Mr. JONES. I was for some years agency vice president, and in more recent years my work has been public relations and advertising. That comes as near explaining it without going into detail as I could explain it.

Mr. GESELL. Are you familiar with an agreement known as the replacement agreement?¹

Mr. JONES. Yes; may I say that the document you refer to is called a plan and it is subscribed to; I believe the word agreement doesn't occur and it is quite different from an agreement, but I am perfectly willing to refer to it as an agreement, as I often have.

Mr. GESELL. Will you tell us what the origins of this agreement were? What your connection with it has been.

¹ Subsequently entered as "Exhibit No. 815." See appendix, p. 4906.

Mr. JONES. For a great many years, I should say, reaching back 30 or 40 years, there have been enactments in the various States, in all of the States, I think, on the subject of replacement, that is to say, the taking up of a policy that is in force on the life of any citizen and putting a new—

Mr. GESELL (interposing). You mean statutes against twisting.

Mr. JONES. Against replacement, too.

Mr. GESELL. Can we distinguish here, to start, Mr. Jones, between replacement and twisting?

Mr. JONES. I would be very glad to do it if I could make the laws, but I have here, for example, a letter written by the Insurance Commissioner of Missouri on December 5, 1935, to the president of our company, you have a copy, I think, in which he said that the Department had adopted a definition and a rule and practice—

Acting Chairman REECE. May I permit an interruption? We have Mr. Bob Feller with us and we are very, very glad to have him here. I want to say to him that we have no intention of investigating baseball.

Mr. JONES. He gives us as the rule of their department, as the interpretation of their law, running back to December 16, 1915—you see that would be 24 years ago; I will read this short paragraph:

Twisting is inducing or attempting to induce the holder of the life-insurance policy to surrender that policy and take out new insurance in the company represented by the agent who advises the surrender of the existing policy. The advice may be direct or indirect. The element of misrepresentation may or may not be present.

In some of the statutes the word "twisting" is used, in some the word "misrepresentation" is used, in some the word "replacement" is used, and in a great many of them both words are used. Notably, to give an illustration, in Connecticut they use the words to mean the same thing, replacement and twisting.

Mr. GESELL. Let's get at my question, Mr. Jones. Generally speaking in the business, the word "twisting" has meant, has it not, the taking of a policy off the books of one company and putting it onto the other by misrepresentation or omission to state a material fact?

Mr. JONES. That is true.

Mr. GESELL. And replacement, by and large, in the business has meant taking such business from one company and putting it on the books of the other without any misrepresentation and without any omission to state any material fact.

Mr. JONES. Well, I don't think I could say that that is true. I think that in most cases replacement where it has been induced from the outside, has been done because of some willingness on the part of the policyholder to be induced, and because all of the facts in favor of replacement and not in favor of replacement have not been presented to him.

Mr. GESELL. In other words, replacement is the switching of a policy from one company to another where the policyholder is fully acquainted with all the factors involved.

Mr. JONES. Well, in most cases, unfortunately, he is not fully informed, and that is the thing—

Mr. GESELL (interposing). That isn't an answer to my question, Mr. Jones.

Mr. JONES. I am trying to answer your question.

Mr. GESELL. We are talking about a definition, pure and simple. Let's forget what we have said before and will you give us a definition of replacement.

Mr. JONES. Replacement is the putting of a new policy in the place of an old one.

Mr. GESELL. By any means at all?

Mr. JONES. Yes, sir.

Mr. GESELL. You were connected with a committee which was responsible for the origination of this replacement agreement; were you not?

Mr. JONES. I was not originally connected with it. It was first started by the Underwriters' Association of New York City. I might say that there are about 200 underwriters' associations in the United States; that is, organizations of agents. Home-office people, either employees or officers, do not belong and cannot belong. In those associations they have committees on good practice, and they try, through that committee on good practice, to examine cases where there have been replacements or misrepresentations, twisting, or any other kind of bad practice.

Mr. GESELL. We are talking here about the replacement agreement.

Mr. JONES. This grew out of that. The call for the meeting was by that committee in the New York Association. There were several meetings held in New York City, and finally it was decided by them that they needed some home-office help, that their committees were not able to handle the question because just then we had the depression come along, policyholders were much upset, agents were upset, they were not getting as much business, and the replacement and twisting took a very big turn.

Mr. GESELL. This was about 1931, was it not?

Mr. JONES. In July 1930 those conferences began.

Mr. GESELL. You say they had some home-office help. Am I correct in saying that a committee to inquire into the matter was appointed by the Association of Life Agency Officers?

Mr. JONES. Later; yes, sir.

Mr. GESELL. When was that committee appointed?

Mr. JONES. It was appointed sometime toward, as I recall, the middle of 1931.

Mr. GESELL. Were you a member of that committee?

Mr. JONES. I was a member of the Life Agency Officers end of it. You will find on the agreement there, if you will look, that the committee was made up of both life agency officers and of underwriters, there being 7 underwriters and 4 life-agency officers on the committee.

Mr. GESELL. I show you a letter sent by the members of the committee to Mr. Walter E. Webb, chairman of the executive committee of the Association of Life Agency Officers, dated October 29, 1931,¹ and ask you if you recognize that as coming from the files of your company.

Mr. JONES. Yes, sir; I do.

Mr. GESELL. The letter states [reading from "Exhibit No. 814"]:

You appointed a committee about a year ago to cooperate with a committee from the Life Underwriters' Association of the city of New York, to consider the evil practice generally known as "twisting" and to effect, if possible, an

¹ Entered later as "Exhibit No. 814." See appendix, p. 4904.

agreement among companies to cooperate in a plan for discouraging the replacement of life insurance of one company by new insurance in another company.

At the outset of this cooperation, a meeting called by the New York City Association was attended by representatives of many of the life-insurance companies that are admitted to place life insurance in the State of New York. Agency officers, general agents, managers, and Underwriters were in attendance. Subsequently, your committee and that of the above-named association held several joint meetings, most of which were held during the fall, winter, and spring of 1930 and 1931.

A plan was agreed upon by the joint committee, and printed copies were sent to all of the men who were in attendance at the original general meeting, and to some others. That plan included certain recommendations for its operation which some of the companies thought it would be difficult to carry into execution. Accordingly, another general meeting was held, and out of it grew the recommendation that the joint committee continue to function and that a modified plan be printed, and submitted to the various companies which had participated in any of the discussions.

We submit to you and to the members of the Life Agency Officers' Association, the final form of the agreement, and beg to report that the 23 companies, the names of which are separately attached, have signed the agreement and that only 7 of them have made any exceptions in the plan as it stands in the printed form. The exceptions are minor—in the main, they are intended either to effect a harmony with certain well-established practices of those companies or to exclude term insurance from the provisions of the agreement. The exceptions are endorsed on the forms which were executed respectively by these 7 companies and are a part of the permanent record. It is expected that other companies which have been considering the joint committee's plan will execute the agreement in the near future.

There is no evil practice in the field of life-insurance underwriting which needs to be more definitely killed than that of the improper replacement of the business of one company by another company. Usually, twisted business is accepted by the new company without knowledge of the fact that similar amount has just been surrendered in another company. Recognizing the difficulty of proving such illegitimate transactions, it is certainly worth while to have as well planned cooperation to suppress it as can be established without running into serious operating difficulties. It is heartening to all of us who have worked earnestly throughout the past year to be able to report the whole-hearted support of 23 important companies in a program which is at least based upon a desire to solve this problem cooperatively—the only way it can be solved. Like many other movements, this one has a small beginning. This is reflected not only in the small number of companies relatively that are in the agreement at present, but in the terms of the agreement as well. It must be noted, however, that the amount of business which is transacted by the signatory companies is much larger with respect to the total production of life insurance than would be indicated by the number of companies in respect to the total number of operating companies in the United States. Furthermore, the plan has not been submitted heretofore to those companies in the United States and Canada which are not now transacting new business in the State of New York.

We ask, therefore, that the agreement be passed among the members of this association who are in attendance at this time and that it be now read. The joint committee is unanimous in the opinion that other companies represented here today, without limitation as to geographical operations, will want to consider their entrance into the agreement so that the widest possible support of the life companies of the United States and Canada may be given to the program and an opportunity offered to cooperate in the elimination of a great evil.

And you have listed there the names of the original signatory companies, have you not?

Mr. JONES. Yes, sir.

Mr. GESELL. I wish to offer this letter for the record.

Acting Chairman REECE. It may be admitted.

(The letter referred to was marked "Exhibit No. 814" and is included in the appendix on p. 4904.)

Mr. GESELL. The document I next show you is entitled "Plan for Discouraging the Replacement of Life Insurance of One Company by New Insurance in Another Company."

Mr. JONES. I have a copy of that in my hand.

Mr. GESELL. This is a correct copy of the plan?

Mr. JONES. Yes, sir.

Mr. GESELL. I notice it provides that any company which agrees to the plan must subscribe to it by the signature of its president.

Mr. JONES. That hasn't been followed. I think it was discussed originally, but a great many of them are not signed by the president.

Mr. GESELL. They are signed by an officer of the company?

Mr. JONES. Always by an officer.

Mr. GESELL. Will you tell us what the principal provisions of this plan for discouraging the replacement of life insurance are?

Mr. JONES. The plan provides that companies should insert in their agent's statement or application, or in some form in some of their papers, a question to be asked the policyholder. Essentially the question is, is this insurance you are applying for to replace insurance in this or any other company?

The second provision there states that it is taken to safeguard the interests of the policyholder and the companies.

Third [reading from "Exhibit No. 815"]:

When a company shall receive an application for new insurance which apparently will replace outstanding insurance in another company, it shall promptly notify the other company and shall deny the issuance of the new insurance for at least 2 weeks so that it may hear from the other company and the other company may have opportunity to conserve its business.

Those are the essential things. They are asked to make a report, which they do not all follow. Those are the essential features.

Mr. GESELL. That is a report on the amount of replaced business?

Mr. JONES. That is right.

Mr. GESELL. I wish to offer this plan for the record.

Acting Chairman REECE. It may be admitted.

(The plan referred to was marked "Exhibit No. 815" and is included in the appendix on p. 4906.)

Mr. GESELL. Do I understand that what happens is this, that a company which has subscribed to this agreement promises that it will place in its application forms a question designed to find out whether the insurance to be written will replace insurance in any other company?

Mr. JONES. That is true.

Mr. GESELL. If the answer is "Yes," the names of the companies whose replaced business is involved are given, are they not?

Mr. JONES. No.

Mr. GESELL. The policyholder states, does he not, the name of the company whose insurance is being replaced?

Mr. JONES. Yes; usually he does.

Mr. GESELL. Then the company which is attempting to write the new business advises that other company that it is about to lose business. Is that correct?

Mr. JONES. That is correct.

Mr. GESELL. And that company which is about to lose the business has a 2 weeks period within which it may attempt to conserve its business.

Mr. JONES. That is right.

Mr. GESELL. That mechanism is followed, regardless of the reasons which prompt a policyholder to switch from one company to another?

Mr. JONES. If it is to be replaced; that is all.

Mr. GESELL. If he is to give up one and take another?

Mr. JONES. That's right. He doesn't report to this committee; he reports only to the other company involved. This committee gets no reports from anybody with reference to transactions of that sort.

Mr. GESELL. The communications are directly between the company writing the business and the company whose business is to be replaced?

Mr. JONES. That is correct.

Mr. GESELL. And those communications take place regardless of whether the policyholder has been fully acquainted with the facts or not, whether he has initiated this replacement, or whether it has been initiated by the agent, or regardless of any of the extenuating circumstances.

Mr. JONES. If he says it is to replace another, then the company receiving that application or that word notifies the other company.

Mr. GESELL. And the purpose for notifying the other company is to enable it to keep that business on its books if it can?

Mr. JONES. Well, yes; roughly so.

Mr. GESELL. The agreement has been amended on one occasion, has it not?

Mr. JONES. Yes.

Mr. GESELL. Is this a correct copy of the amendment?

Mr. JONES. It is; yes.

Mr. GESELL. Will you tell us what that amendment provided?

Mr. JONES. Well, as we proceeded in this program we were having a good deal of trouble, a lot of replacing. It was considered advisable to strengthen it somewhat if possible, and one of the suggestions made was that where a company knew the agent was involved, it should report the name of that agent to the other company, on the theory that if a man's name came up frequently he was probably busily engaged in twisting or replacing insurance. Only a few of the companies. I don't remember how many, I think less than half, I think about 40 percent of them, as I recall it, executed that amendment.

Mr. GESELL. I wish to offer the amendment for the record.

Acting Chairman REECE. It may be admitted.

(The document referred to was marked "Exhibit No. 816" and is included in the appendix on p. 4907.)

Mr. GESELL. Does this list, entitled "Signatory companies with names of persons in charge of intercompany correspondence," represent the names of the companies which subscribed to the agreement, which had been subscribed as of July 6, 1938?

Mr. JONES. Yes; it so seems.

Mr. GESELL. And those names marked with the asterisk, Mr. Jones, are the names of the companies which subscribed to this amendment with respect to agents?

Mr. JONES. So far as I know. I didn't have anything to do with the preparation of this. It would seem that that is true, that more than half of them, probably 60 or 70 percent of them, did sign it, but a considerable number did not.

Mr. GESELL. This is a document from the files of your company and prepared under your direction, was it not?

Mr. JONES. I didn't see it until it was ready to go out. It was made up by my secretary in my office.

Mr. GESELL. I wish to offer it for the record.

Acting Chairman REECE. It may be admitted.

(The document referred to was marked "Exhibit No. 817" and is included in the appendix on p. 4907.)

Mr. GESELL. Approximately how many companies have come into the agreement?

Mr. JONES. I should say, now, 91 or 92 companies.

Mr. GESELL. Are there any of the principal companies which have refused to participate in the agreement?

Mr. JONES. The Prudential has not executed the agreement. The Mutual Life of New York executed it about 18 months ago, and the New York Life about 2 years ago.

Mr. GESELL. What reasons does the Prudential give for not entering into this agreement?

Mr. JONES. I have never asked them. I haven't the slightest idea about that. There has been no attempt to urge it upon anybody.

Mr. GESELL. I show you correspondence between yourself and Mr. L. Seton Lindsay, vice president of the New York Life Insurance Co., and ask you if you recognize that as the correspondence which you had with Mr. Lindsay.

Mr. JONES. Yes, sir.

Mr. GESELL. Refreshing your recollection as to the reasons why the Prudential—

Mr. JONES (interposing). That is the original organization of it, you see. That was back in 1931.

Mr. GESELL. They didn't come into the original organization either, did they?

Mr. JONES. Mr. Lindsay was present at the meetings downtown. He was present, I think, at all of them, or somebody from that company was, at the meetings of the Life Agency Officers Association.

Mr. GESELL. We are discussing the reasons why the Prudential didn't come into this plan.

Mr. JONES. I have answered that.

Mr. GESELL. I want to see whether we can't elaborate on your answer a little. Your letter to Mr. Lindsay states [reading from "Exhibit No. 818"]:

On my return today, I had your letter of October 6. I cannot say definitely that either the president of the Prudential or the president of the Mutual Life has seen the suggested plan for the elimination of substituted or twisted business.

Our committee have letters, however, from officers of both companies in which they state they are in full sympathy with the plan but that they will not sign the forms at this time. I quote from Second Vice President Sargent's letter:

What company is Mr. Sargent with?

Mr. JONES. Mutual Life.

Mr. GESELL. The quotation says [reading further from "Exhibit No. 818"]:

We would prefer, however, to reserve to ourselves freedom of action and be in a position to handle each case on its merits, and, if necessary, to go further than the committee program contemplates. On the other hand, we can conceive of circumstances where it might not be to the interest of the companies involved to carry out the committee program in every detail.

Your letter goes on to say [reading further from "Exhibit No. 818"]:

From Vice President Munsick's letter, I quote the following:

He is from—

Mr. JONES. Prudential.

Mr. GESELL (reading) :

We are in thorough sympathy with the desire expressed that the substitution of new insurance for protection that has been in force for some time be discouraged in every way. * * * We believe that every case that presents itself for consideration can be adjusted by the companies interested, and that the gesture of a formal subscription to a plan over the signature of the president of the company is unnecessary.

I wish to offer this correspondence for the record.

Acting Chairman REECE. It may be admitted.

(The letters referred to were marked "Exhibit No. 818" and are included in the appendix on p. 4911.)

Mr. GESELL. That would indicate to me, Mr. Jones, that in the case of the Mutual and the Prudential their officers could see no reason to enter into a formal agreement or understanding of this character.

Mr. JONES. The Mutual Life afterward came in.

Mr. GESELL. That was sometime later.

Mr. JONES. Sometime later, and the Prudential—I think I am correct in saying this also, though I am not authorized to speak for them—are following out the general rules of notification if they get a case in which replacement is involved. I think they do it invariably.

Mr. GESELL. Was there any consideration at this time as to whether or not this agreement might not be considered in restraint of trade or squarely in opposition of all of the antitrust legislation?

Mr. JONES. I don't recall any.

Mr. GESELL. I am asking you whether you do. You don't recall any such discussions?

Mr. JONES. No; I do not.

Mr. GESELL. Did many of the companies entering into the agreement do so with reservations?

Mr. JONES. I should think a third of them.

Mr. GESELL. Does this document which I show you now summarize the reservations or exceptions made by the various companies?

Mr. JONES. I should say so; yes. It says "some"—"Exceptions made by some of the signatory companies."

Mr. GESELL. Would you say these were the principal exceptions?

Mr. JONES. I should think so.

Mr. GESELL. Let me ask you, Did this agreement apply to term insurance?

Mr. JONES. No, sir.

Mr. GESELL. Why didn't it?

Mr. JONES. There are a great many people who hold the view that term insurance is simply temporary insurance, and it is to the interest of the policyholder to take permanent insurance as soon as he can. There are a lot of people who continue to report, however. Our company is notable in that. We have for many, many years, long before this agreement, followed this same plan that we have here, and we notify on term insurance just as we do on anything else.

Mr. GESELL. If one company was substituting one term policy for another term policy, would the agreement apply?

Mr. JONES. We have never considered that it had application to term insurance.

Mr. GESELL. What about industrial insurance?

Mr. JONES. It does not concern itself with industrial.

Mr. GESELL. It is confined entirely to ordinary, I take it.

Mr. JONES. That is right.

Mr. GESELL. Did many of these companies enter into this agreement with the understanding that they wouldn't follow the agreement where they were in competition with a company which had not also entered into the agreement?

Mr. JONES. Well, I have heard it said that some of the companies do not like to make a report unless the other company makes its report. In most cases I think companies make no discrimination at all.

Mr. GESELL. My question was: Were there some companies which refused to enter into this agreement with the specific reservation that they would not follow the agreement in cases where they were in competition?

Mr. JONES. If so, it would be in the list here.

Mr. GESELL. Do you recall that there were many of those?

Mr. JONES. No; I couldn't, offhand. I haven't read that for several years.

Mr. GESELL. The Amicable Life Insurance Co. is quoted in that document as saying [reading from "Exhibit No. 819"]:

An exception we desire to make to this plan is that we shall communicate the information only to such companies as have placed their signatures to the agreement.

Does that refresh your recollection?

Mr. JONES. No; I have no recollection about those specifically, because those were made 9 or 10 years ago.

Mr. GESELL. The Minnesota Mutual Life Insurance Co. notes the exception [reading from "Exhibit No. 819"]:

Exception also made with respect to any other company which does not subscribe to plan.

The General American Life Insurance Co. states [reading further from "Exhibit No. 819"]:

We do not agree to do more than to reciprocate the commitments of the other companies; in other words, we do not want to agree to notify another company and hold up our policy for 2 weeks where the company has not become a signatory company to this agreement.

Mr. JONES. I should think there might be a few of those, not many.

Mr. GESELL. The Great-West Life Assurance Co. states [reading further from "Exhibit No. 819"]:

In other respects there are no reservations except that we shall reciprocate any exceptions noted by other signatory companies.

I wish to offer this for the record.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 819" and is included in the appendix on p. 4913.)

Mr. GESELL. There were, then, I take it, some companies which agreed to limit the operations of the plan solely as between themselves and other companies which had entered into the agreement?

Mr. JONES. Yes; that is what you stated there. Those were all written on the third page here of this agreement.

Mr. GESELL. I am not doing the testifying here, Mr. Jones, and you were on this committee from 1931 until the present time. You have no recollection about that at all yourself?

Mr. JONES. I probably remember that some of the companies made exceptions along that line, but if you were to ask me who did, I couldn't have told you. I haven't looked at these for years.

Mr. GESELL. Was it a subject of discussion?

Mr. JONES. No, sir.

Mr. GESELL. As a result of the agreement, do you feel that replacements became smaller?

Mr. JONES. Yes; that is a general impression.

Mr. GESELL. Very much smaller?

Mr. JONES. A great many companies reported a very great decrease. There are figures from six companies in there showing the effect, year by year.

Mr. GESELL. Is this the document you refer to?

Mr. JONES. Yes.

Mr. GESELL. It is a 6-year record of intercompany replacement for the Provident Mutual, the Connecticut Mutual, the Lincoln National, the Equitable Life Insurance, the Mutual Life, and the Bankers Life, is it not?

Mr. JONES. Well, I shouldn't think the Mutual Life was in there, because they didn't have 6 years of experience.

Mr. GESELL. Have you in your files some record which would tell us what company No. 18 is?

Mr. JONES. No; I can send it to you, but I unfortunately don't have it here.

Mr. GESELL. I notice the words "Mutual Life" written on that photostat.

Mr. JONES. I don't know—I doubt very much if that is Mutual Life. I think the others are all correct, but I rather think that that is some other company.¹

Mr. GESELL. If you will advise us.¹

Mr. JONES. What is that number?

Mr. GESELL. No. 18. This record shows that for the period from '33 to '38 in the case of all of these companies the percentage of business saved through the operation of the agreement increased, does it not?

Mr. JONES. I think so.

Mr. GESELL. I notice that company No. 8 saved 48.8 percent in '33, 66.3 percent in '38. That company No. 30 saved 26 percent in '33 and 44 percent in '38. Company No. 50 saved 46 percent in '33 and 83 percent in '38. Company No. 29 saved 54.1 percent in '33, 47.3 percent in '38. Company No. 18 saved 46.1 percent in '33 and 59.6 percent in '38. Company No. 61 saved 38.9 percent in '33 and 55.6 percent in '38.

I would like to offer that for the record.

Acting Chairman REECE. It may be admitted.

(The document referred to was marked "Exhibit No. 820" and is included in the appendix on p. 4916.)

Mr. O'CONNELL. These percentages mean that of the applications for replacement policies these large percentages did not result in replacement?

Mr. GESELL. The percentage of the business saved.

Mr. JONES. In those percentages he read, that is true.

¹ Mr. Jones subsequently advised by letter dated July 6, 1939, that #18 represented the experience of the Mutual Life.

Mr. O'CONNELL. So where we have 80 percent business saved, that means 80 percent of the prospective policyholders who were thinking of replacing their insurance with another company ended up by not doing it?

Mr. JONES. I should say, taking the whole—all of the companies together, substantially 50 percent was conserved. I can't give that as an accurate figure, but it wouldn't be far from that, I should say.

Mr. O'CONNELL. So that on a statistical basis, if I wanted to replace an insurance policy I have with another company, I would have about a 50-50 chance?

Mr. JONES. You would have any chance you wanted to take after you had the information. You would be faced right away with what all of the facts are with reference to it, and then you should do what you like.

Mr. O'CONNELL. I would be faced with two insurance agents where I had one before, also, wouldn't I?

Mr. JONES. You might, and you might not; maybe there would be no agent at all for the company whose business is being replaced, and they would write you a letter about it, or something of that sort.

Mr. GESELL. I have in my hand a document entitled "Consolidated Report of Replacement Figures for the 8-Month Period Ending August 31, 1938," and ask you if this is correct—a résumé of the business reported by the 63 companies shown on this schedule to you for that 8-month period?

Mr. JONES. That represents the figures they gave us; yes, sir.

Mr. GESELL. I wish to offer that for the record.

Acting Chairman REECE. It may be admitted.

(The document referred to was marked "Exhibit No. 821" and is included in the appendix on p. 4917.)

Mr. GESELL. Let me ask you this question now, Mr. Jones: Do you think this really got at the basic problem at all?

Mr. JONES. You mean the basic problem of twisting?

Mr. GESELL. Yes.

Mr. JONES. Well, I should say it is just like statutory law and police regulations, and regulations of all kinds of groups, including bar associations, medical associations, and everything else; some of them live up to it and some don't.

Mr. GESELL. Well, let's have an answer to the question.

Mr. JONES. That is as good an answer as I can give you.

Mr. GESELL. You mean it helped in some places and didn't help in others?

Mr. JONES. No; I mean it has helped and that there would have been a lot more if we had not had some way of cooperating to prevent it.

Mr. GESELL. How many agents did you report to State authorities for twisting as a result of the information received through the agreement?

Mr. JONES. We don't get any such reports at all. We have no names—nothing of that kind.

Mr. GESELL. Have you any information as to how many agents' names were reported?

Mr. JONES. I have none; never have had.

Mr. GESELL. That was one contribution, part of the agreement, was it not?

Mr. JONES. No. They were only to report to the other company involved.

Mr. GESELL. And I think you stated in your previous testimony that if they found that one agent's name was cropping up a considerable number of times, they would know he was a replacer or a twister?

Mr. JONES. There has never been any collection of those names made, any report of them, of any kind, except as between the two companies involved with reference to that one agent.

Mr. GESELL. So that the collection of these names was not for the purpose of bringing to the attention of the State regulatory bodies men who should be disciplined under the laws for twisting?

Mr. JONES. That would be up to the companies entirely, if they wanted to report them.

Mr. GESELL. I take it, it is your judgment that wasn't done?

Mr. JONES. I don't know of any cases that have been reported, though I think there may have been.

Mr. GESELL. Have you any figures which show whether or not it was in the interest of the policyholders to have kept their business where they did, or switched it to the other company?

Mr. JONES. Yes, sir. You have in your files there a booklet called Replacement and the Policyholder. In that are computations from actuaries and various companies showing just what happens to the policyholder in the dropping of his policy and taking a new one.

Mr. GESELL. I was asking about these particular policyholders and these particular cases that were reported to you, not an actuarial discussion of the pros and cons of replacement.

Mr. JONES. Cases are not reported to our committee at all.

Mr. GESELL. Well, for instance, one of these companies saved 88 percent of their business. Have you any study which would indicate whether the saving of that business was or was not in the interest of each of the policyholders involved?

Mr. JONES. We take the general broad view that it is a very difficult matter to replace one policy with another to the policyholder's advantage.

Mr. GESELL. It is possible, isn't it?

Mr. JONES. I don't offhand think of a single case.

Mr. GESELL. You mean that if there is a policyholder who took out rather an expensive form of endowment policy, let's say, and his income has fallen off in recent years; his life-insurance agent hasn't been anywhere around to see him; suddenly an agent from another company pops up and talks to him about his insurance, and he says, "I don't have any need for an endowment policy here. I was going to endow my daughter, but she has died and I have just been carrying this old form of endowment policy because I didn't know I could change," and this other fellow says, "Well, I will sell you a whole life policy which will reduce your premiums a little bit."

Would you feel that it is absolutely inconceivable that under any possible case that might not be in the interest of the policyholder?

Mr. JONES. I thought you were talking about replacing it in another company. The point about it is that if he wants to change his policy his advantage lies with changing it in his own company, for the reason that they can make an adjustment back to the beginning and save his insurance age.

Mr. GESELL. You don't think there is any particular advantage which should come to a company which is energetic enough to go out to this fellow and talk to him about his needs and revise his insurance program in terms of his then requirements?

Mr. JONES. There are a good many disadvantages in doing so.

Mr. GESELL. But why shouldn't a company which was energetic enough to go around and see policyholders and talk to them about their needs and readjust their programs get some benefit for having brought that service to the policyholder?

Mr. JONES. The policyholder thinks he is getting a benefit but he doesn't.

Mr. GESELL. Well, the whole crux of this agreement is to keep the policyholder where he was originally, isn't it?

Mr. JONES. No; not necessarily.

Mr. GESELL. It has worked out that way?

Mr. JONES. It is to advise the policyholder about all of the facts. Nearly all of the laws provide that he must have not only all of the favorable information, but the unfavorable information, and that they don't usually get; that is the trouble.

Mr. GESELL. Wouldn't you say possibly that the trouble was that there were so many life insurance agents out trying to make a living, so many people who are policyholders, that it has become more and more difficult to prevent agents from going to the policyholders of another company and isn't the real purpose of this agreement to prevent companies from raiding each other's business?

Mr. JONES. No, no; it is not; as I said to you at the outset, it originated with the agents themselves. It didn't originate with the companies.

Mr. GESELL. The kind of thing I have in mind is pretty well expressed in a paragraph in a letter to Mr. Murphy from Mr. Chandler Bullock, president of the State Mutual Life Insurance Co., which he wrote March 9, 1934. He says:

To many of the companies are crowding their general agents and managers to get in more manpower to bring about more production. The result is that there are twice as many men trying to sell life insurance as can make a living out of a possible maximum buying capacity of the public, so some of this horde of salesmen are forced, to scrape a living, to go to existing policyholders, many of whom are carrying all the present coverage they can possibly pay for and possibly a little more. The temptation and the necessities of the agent are too great, and a replacement is the result.

Does that sharpen your thinking on the problem at all, Mr. Jones?

Mr. JONES. Well, I should think there might be cases of that kind, else we wouldn't have an agreement.

Mr. GESELL. That is what I am getting at. One of the purposes then of this agreement was, was it not, to prevent, or at least lessen, the strain which was placed on one company in conserving its business against the attacks of agents of other companies?

Mr. JONES. I have to say in all honesty that was not a consideration at all at the time. The whole question had originated in the various insurance departments in the United States, running back for years, and they are the people that set the general pattern. As I showed you here with the definition in Missouri and similar definitions elsewhere, that replacement of insurance is not in the interest of the policyholder

Mr. GESELL. By and large, you will admit, will you not that the majority of State statutes simply hold out against twisting as being defined as the switching of a policy by misrepresentation or omissions to state a material fact?

Mr. JONES. Yes; but—

Mr. GESELL. Now this agreement went along much further than that, didn't it, Mr. Jones? It has no relation to misrepresentation or omission. It prevents the replacing of a policy or at least gives another company a right to prevent it, regardless of whether that replacement has been made by fair representations or foul?

Mr. JONES. Well, that is between the two companies involved, and they take the matter up with the policyholder, and, if he has all of the facts and acts, he either retains the policy he has or takes a new one. That is up to him. The whole idea is to get these facts before the policyholder. That is substantially the ground work of this whole thing, and it states so in this program and states it in two different places, as I recall.

The idea is to get before the policyholder all the information. Now, what would be some of the information? Well, the first is that he wouldn't get a policy, for example, today as against 5 years ago, or 10 years ago, with some of the liberal provisions the old policy had. If he got a new policy today he would have 2 years of contestability on that policy, where he wouldn't have any if the policy had been in force a year or two, his old policy.

In the third place he has to pay another acquisition cost, which he wouldn't if he retained his present policy.

The next, his old policy was issued at an age where the mortality cost was such and such and at the advanced age the mortality cost is greater.

There are five different things that usually aren't told the policyholder by somebody vicious enough to want to twist it.

Mr. GESELL. Well, doesn't your fault then lie with the caliber of the agents which have been employed by the companies? Isn't it more proper direction of this thing to, as this letter of Mr. Bullock's suggests, have a different type of agency force trained along a different direction, rather than letting the agents run wild in trying to prevent it by some intercompany agreement in the background?

Mr. JONES. Well, we have our troubles along that line just like all industries do; some are efficient, some aren't.

Mr. O'CONNELL. Have the companies done something comparable to this sort of thing in the replacement field¹ in connection with selling business, new business to persons not insured with other companies? In other words, this makes it possible, as you put it, to get all the facts before the man who is thinking of replacing his insurance, and as a general proposition I take it that means by putting two insurance men on his trail, so that one can counteract the other?

Mr. JONES. I think you are overstating that, but—

Mr. O'CONNELL. What do you do about selling insurance to a man where there is not replacement problem involved?

Mr. JONES. This isn't concerned with it at all.

Mr. O'CONNELL. Well, that man is just as concerned with getting all the facts, isn't he?

¹ See "Exhibit No. 815," appendix, p. 4906.

Mr. JONES. He gets all the facts?

Mr. O'CONNELL. This a little off the point. How does he get all the facts if he is going to buy some new insurance?

Mr. JONES. I suppose he inquires. The agent gives him whatever facts he has; he already has some, I have no doubt, some general information about what he would like, how much he would like, what kind, and so forth.

Mr. O'CONNELL. You can say all that, about the man in the replacement field, couldn't you, about the policyholder? All that you have said could be said about these people?

Mr. JONES. All of that, but I mentioned some points a while ago that he wouldn't be familiar with, those five that I just enumerated a moment ago he wouldn't know about.

Mr. O'CONNELL. It occurred to me—

Mr. JONES. He wouldn't know he was having a policy probably with not as liberal provisions in it, or that he had an additional—there was an additional expense involved, and the mortality question is involved, and that the provisions of the policy might not be as liberal as those he had, and so on.

Mr. O'CONNELL. As I listened to your testimony it occurred to me it might be possible you were more concerned with getting all the facts with regard to replacement policies before the policyholder than you were with regard to new business.

Mr. JONES. There are other methods of course. There are always educational processes about types of policies, insurance, and so forth. I have no doubt you have seen some of them in magazines and newspapers.

Mr. O'CONNELL. Yes; I have heard quite a bit about those.

Mr. JONES. Conferences, and so on. We have an organization started 10 or 11 years ago called the American College of Life Underwriters and when a certain test is met, educational test—and those are under the direction of educators; the president of it is Dr. S. S. Huebner, of Wharton School of Finance—when those examinations are taken on a scholastic basis, on an informational basis, and when the man has had a certain amount of satisfactory practice, recommended by his company, he is given a C. L. U.—chartered life underwriter—designation. That has some general similarity to the C. P. A.—certified public accountant—you see. So that is one of the big movements we have to try to train agents along professional lines. We have had very great success with that type of agent.

Mr. O'CONNELL. I think we are getting a little far afield from what Mr. Gesell wants, so I will desist.

Mr. GESELL. I have no further questions.

Mr. O'CONNELL. One question I would like to ask you—not terribly important, but it refers to the amendment made in the agreement providing for including in the notification that one company gives to the other company the name of the agent submitting the application.¹ You explained as the reason for that amendment—but I either didn't understand it or it was inadequate. Would you explain it again?

Mr. JONES. I stated, as I recall, or at least I will state now, that on account of the depression we are having an unusual amount of

¹ See "Exhibit No. 816," appendix, p. 4907.

trouble with replacement, and there seemed to be on the surface an indication that here and there there were some spots in which it was being practiced more than elsewhere, and that probably a reporting of the names of those agents would have the effect of bringing those men in, talking with them about it, and telling them about the evil of it, and so forth. But those reports were made only as between companies; never made to us as a committee.

Mr. O'CONNELL. Yes; but taking a particular company, you get a report from your agent which indicates that he has a prospect or an insurance policy which will be a replacement.

Mr. JONES. His name would be on the papers; yes.

Mr. O'CONNELL. He is your agent. But you send his name to the company which has written the policy that he is attempting to replace?

Mr. JONES. That is right.

Mr. O'CONNELL. I don't quite understand how that is effective. Don't you have control of your agents? I should think if you had an agent or a number of agents about whom you had frequent evidence that they were doing a large replacement business it would be your problem to take care of your agents, and not to report it to the other company.

Mr. JONES. It does work that way. In other words, we keep an account of the agents whose names come up frequently.

Mr. O'CONNELL. What I want to know is why you send them to the other companies.

Mr. JONES. Because a great many agents throughout the United States submit business to more than one company, and that was one of the important points in it, too.

You take brokers, for example. We have to deal with brokers who will place insurance with any company.

Mr. O'CONNELL. I was thinking, of course, of agents as being agents of the particular company writing the business.

Mr. JONES. We make no discrimination there. We report them all.

May I add this one point: That our committee sends its report each year to all the insurance commissioners of the United States and that the insurance commissioner of New York, in examining New York companies, and commissioners examining companies in other States, so far as I know—but it is particularly true in New York—always go into that correspondence, and I have here important statements made by the superintendent of New York. Here is one made in 1934, in which he says:

Twisting is one of the evils which the department and men interested in the life-insurance business are constantly trying to minimize. Twisting is defined under section 60 of the insurance laws as the making of misleading representations or incomplete comparisons of policies for the purpose of inducing a policyholder to lapse his insurance. Section 60 has in some respects proved inadequate and needs clarification. That matter has now received the attention of various associations of life underwriters, as well as this department. Upon the completion of these studies there may be presented to the legislature a proposal which would make this legislation more effective.

We have statements from the commissioner about every 3 years, when he makes a complete report.

Mr. BLAISDELL. Are you suggesting here that the companies were not interested just as much as the insurance superintendents in the so-called antitwisting legislation?

Mr. JONES. I am not making any such suggestion as that. The companies are just as much interested in having business done fairly and aboveboard as any other kind of administration in this country is anxious to have business done honestly, fairly, and with full information.

Mr. BLAISDELL. And you are suggesting that the companies were giving their fullest support to this type of legislation?

Mr. JONES. There isn't any of this legislation that is up at the moment that I know about.

Mr. BLAISDELL. I am speaking now over the time period that is involved.

Mr. JONES. That has been handled more largely by the Association of Life Underwriters, because they have been particularly interested. just as this grew out of the New York Association of Life Underwriters and was first confined to New York State and companies doing business in New York State, and the agents all over the country asked us to extend it to the whole of the United States.

Mr. BLAISDELL. But the companies stood behind their agents in that regard?

Mr. JONES. If you mean that the companies agreed that it ought to be stopped, very definitely, exactly.

Mr. BLAISDELL. That is exactly the point. And is your feeling that, having got the legislation which was desired by the companies, and we will assume approved by the departments, that that legislation was not in itself sufficient to take care of the evil which you have described?

Mr. JONES. Yes, sir. It is just like a trade association or professional association. I mentioned a while ago the bar association, which attempts to control certain things, and maybe not as successfully as we are.

Mr. BLAISDELL. And you would regard this as a fairly successful policy?

Mr. JONES. Yes, I would.

Mr. BLAISDELL. The policing being done by the insurance companies rather than by the insurance officials of the States.

Mr. JONES. Yes. If I understood your other question, I can't answer for the whole industry, but I don't at present have any information about companies that have urged, certainly not upon any legislature, anything about the laws. It would be more likely to come from the agents themselves, in the field, because it is a State matter, and they are familiar with the facts, and it is their own action. It arises out of these committees on ethics in the local underwriters' associations, of which there are more than 200 in the United States.

Mr. BLAISDELL. But in accordance with the testimony which Mr. Whitsitt gave us, the companies generally would support their local agents in matters of that kind, would they not?

Mr. JONES. Well, if they had agreed that the statute was a proper one, I should think they might do so. I couldn't speak for the companies.

Mr. BLAISDELL. You can speak for your own company.

Mr. JONES. I can't speak for my own company. Unfortunately in that, that would be in the hands of other people than me.

Mr. BLAISDELL. And you wouldn't know whether the question of the antitwisting statute under the New York State law was under

consideration during the present recodification of the New York State law?

Mr. JONES. I don't think any change was made and I don't believe any consideration was given it. I don't want to give that as a definite answer, but at least I was not involved in it in any way.

Mr. BLAISDELL. I don't know either. I am just asking for information.

Mr. JONES. I have to say "I don't know" on that point.

The fact of the case is, I have been trying for 3 years to get out from this committee work, and in your papers there you will find that 3 years ago I suggested the abandonment of the committee. It has not a very useful purpose any more. So I haven't been quite as active in it recently as I was originally.

Mr. BLAISDELL. That leads me, Mr. Jones, to a second question. Is it your suggestion that this evil became very marked during the period 1931? You laid the blame for the growth of the evil on the depression. The evil was in existence for a long time before that, was it not?

Mr. JONES. Oh, yes. These laws were all enacted long before that, or most of them.

Mr. BLAISDELL. Exactly, and you feel that it actually became a much more serious question in those years, or was it that it was during that period that these various arrangements between the companies became much more prevalent, and you had sort of got into the habit of dealing with this thing on an intercompany basis on other matters, and this naturally came to be an intercompany matter?

Mr. JONES. There were several companies, my own company among them, doing exactly what they were doing here long before there was any agreement. Whenever they got a case from some source or other that indicated replacement, they at once notified the other company about it. That had been the practice for a long time.

Mr. BLAISDELL. And while at the time of the sharpening of the depression in those years, 1930 and 1931, the practice may have become a little more prevalent, you don't mean to give the impression that the depression was the cause of the difficulty?

Mr. JONES. Well, if you have the statements from the Life Underwriters Association of New York, that was exactly the reason. It is because it had very greatly increased with the depression. That is the reason they brought it up. They found they couldn't handle it in the usual way they had been handling it, through their own association, and that is the reason they asked the companies to help them.

Mr. BLAISDELL. But you have just told us it existed before that, and you had these understandings between the companies about that.

Mr. JONES. There were no understandings, so far as I know. Some companies voluntarily did it.

Mr. BLAISDELL. I was using "understandings" in the sense that you understood they would notify you, and they understood you would notify them if any of these cases arose.

Mr. JONES. Most of them didn't notify us. It was our practice. We notified them all, whether they notified us or not.

Mr. BLAISDELL. So you had been dealing with it for a long time and not just when the depression came along.

Mr. JONES. That is when the big increase came. There isn't any question on that point. If you want definite information about that, I think we can get it. There was a very great increase in the replacement of insurance starting along about 1930 and '31 and '32 and '33, and continuing in that period.

Mr. GESELL. I take it that was because the companies continued to employ the same number of agents and compensated them in the same way, and they were vigorously trying to sell insurance in a market not as susceptible to the sale of new insurance, and as a result they started to take business from each other.

Mr. JONES. It was more difficult for the agents to get business; and on the other hand, the policyholder's troubles were very great, and very often he tried to get money from any source he could, in any way he could, whether it was in his interest or not.

Mr. BLAISDELL. Essentially, isn't it a temptation to all of us to blame the depression for many things when they go wrong, and don't go the way we like; instead of trying to burrow down to what might be a more concrete cause we pass off among ourselves what goes for an explanation, "It is the depression that made it." I don't limit that to life insurance.

Mr. JONES. I wouldn't think so in this case, and I wouldn't know how to find words strong enough to state what disaster the depression has brought. The whole thing is that people undergo changes in mental attitude. That goes for policyholders and agents and everybody, and the abnormal activities become normal activities, many of them. That is the effect of the depression. I think the most serious effect of the depression is the effect it has had upon the mental attitude of the American people, so far as this country is concerned.

Acting Chairman REECE. Are there any other questions?

Mr. MAYERS. This replacement agreement¹ you have been testifying to has gone a little beyond the requirements or provisions of the statutes that you referred to earlier, is that not so, Mr. Jones? In other words, this agreement prohibits, not in effect prohibits, but requires insurance companies to notify each other of replacements for any reason, whether it is misrepresentation on the part of the agent or not.

Mr. JONES. I made the statement a while ago that it is very unlikely that any policyholder who is thinking about replacing his policy and taking some steps to do so, has had full information as to whether it is to his advantage or not.

Mr. MEYERS. But reading the terms of this replacement agreement, it would seem to go beyond the terms of the provision of the statutes. Of course, the statutes prohibit replacement on the ground of misrepresentation, so-called twisting. This is not twisting. This is replacement for any reason.

Mr. JONES. The statutes, some of them, as I stated a while ago, provide that it isn't necessary to misrepresent. You have also got to be sure that you have fully represented. Several of the statutes have not only that implication but that language, and I don't see how you could go much further than that. We haven't gone any further than that.

¹ "Exhibit No. 815," appendix, p. 4906.

Mr. MEYERS. The net result of such an agreement would be to freeze the position of the policyholder.

Mr. JONES. To freeze it?

Mr. MEYERS. Exactly.

Mr. JONES. Not unless he wants to freeze it after he gets all the facts.

Mr. MEYERS. It tends to restrict the activities of the agents. The agents probably know they have a 50-percent chance of turning over this insurance to another company.

Mr. JONES. I think anybody would take the stand that without any kind of advice on it at all with reference to his insurance that he has in force, dropping it and taking some other, he ought to have full advice about it. In other words, you and I have got to take recommendations of people who know about automobiles, for example, or about heaters or ice boxes or anything.

Mr. MEYER. Do you think that an agent would be less alert to protect his policyholder when he knows that the agent is safeguarded by such an agreement, that other companies would not seek to replace the insurance of his policyholder?

Mr. JONES. I don't know that I get the whole question.

Mr. MEYERS. Do you think that agents, once having sold insurance to a policyholder, would become less alert to protect the interests of the policyholder, to continue his interest in the policyholder, knowing that that policyholder is his client?

Mr. JONES. These policyholders, most of them, have more than one agent and more than one company. Most of the business that is involved here would be in cases where men have probably several policies in as many different companies.

Mr. GESELL. That still doesn't answer Mr. Meyers' question, does it? After all, if I am an agent and I have sold a policy to a policyholder and I know that I am going to be told before he switches that policy to another company, I don't have to go near him to service him. I am sure I am going to have a chance to talk to him before he lets his policy go to someone else. Isn't that true?

Mr. JONES. I wouldn't think so. I never heard a question like that raised before.

Mr. GESELL. We are raising it here because it seems to be very relevant.

Mr. JONES. I wouldn't think so. It would be a very poor kind of agent that wouldn't look after his clients.

Mr. GESELL. I take it you have a poor kind of agent because you don't rely upon him giving the full information to the policyholder in the first place.

Mr. JONES. I couldn't answer your question any differently from that. I wouldn't think that that would enter into it very much. I never had even heard it raised before.

Acting Chairman REECE. Are there further questions? We thank you very kindly.

(The witness, Mr. Frank L. Jones, was excused.)

Acting Chairman REECE. The committee will stand in recess until 2:30.

(Whereupon at 12:40 p. m. a recess was taken until 2:30 of the same day.)

AFTERNOON SESSION

(The hearing was resumed at 2:35 o'clock upon the expiration of the recess.)

Acting Chairman REECE. The committee will come to order, please. Are you ready to proceed?

Mr. GESELL. I am. The next witness is Mr. Lawrence M. Cathles.

Acting Chairman REECE. Will you be sworn, please? Do you solemnly swear the testimony you shall give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CATHLES. I do.

TESTIMONY OF LAWRENCE M. CATHLES, PRESIDENT, NORTH
AMERICAN REASSURANCE CO., NEW YORK, N. Y.

INTERCOMPANY AGREEMENTS—REINSURANCE

Mr. GESELL. Will you state your full name for the reporter, please, sir?

Mr. CATHLES. Lawrence M. Cathles.

Mr. GESELL. Are you connected with the North American Reassurance Co.?

Mr. CATHLES. Yes, sir.

Mr. GESELL. You are president of that company, are you not?

Mr. CATHLES. Yes, sir.

Mr. GESELL. How long have you been president of the company?

Mr. CATHLES. I have been president of the company for 16 years.

Mr. GESELL. What is the nature of its business?

Mr. CATHLES. Reinsurance is a means of spreading risks, thereby increasing the safety and also avoiding undue fluctuations in losses from year to year. Reinsurance enables small companies to safely issue policies for larger amounts than they otherwise would feel safe to do if they didn't have somebody to share the losses with them. It assists them in competition with larger companies. It is of considerable help to them in holding their agents. A reinsuring company has no contact with the insuring public. It deals only with insurance companies.

Mr. GESELL. Does your company sell reinsurance solely?

Mr. CATHLES. Yes.

Mr. GESELL. It sells nothing else? Does it sell only reinsurance on life risks, or do you also reinsure other type risks?

Mr. CATHLES. Life and accident.

Mr. GESELL. Life and accident. Your customers are, if I understand correctly, life-insurance companies, by and large, are they not?

Mr. CATHLES. We deal only with life-insurance companies.

Mr. GESELL. They ask you to reinsure principally two kinds of risks, do they not, substandard risks or so-called jumbo risks?

Mr. CATHLES. No, sir; I don't think that is true. They ask us to reinsure that part of any policy they issue which they think is an excess of safety for them to retain at their own risk.

Mr. GESELL. That would include standard risks, but it would also include the two types I mention, would it not—large risks and substandard risks?

Mr. CATHLES. Yes, sir.

Mr. GESELL. I wanted to ask you, first of all, Is the reinsurance which you sell principally nonparticipating?

Mr. CATHLES. Yes, sir; almost exclusively.

Mr. GESELL. Is it sold on a yearly renewable term basis?

Mr. CATHLES. We sell on both the yearly renewable term basis and on the coinsurance basis.

Mr. GESELL. Would you say that the yearly renewable term was the great bulk of your business?

Mr. CATHLES. It is the bulk of our business today; I should think that about 45 percent of our total business was coinsurance and about 55 percent reinsurance.

Mr. GESELL. Is your company the largest company in the United States writing solely reinsurance?

Mr. CATHLES. So far as I know, it is the only life-reinsurance company.

Mr. GESELL. Other companies write life reinsurance as part of their regular line of business, do they not?

Mr. CATHLES. As a byproduct, a side issue; there are a number of companies that create special departments for the handling of reinsurance business.

Mr. GESELL. I wanted to ask you this afternoon about the reinsurance conference, and ask—

Mr. CATHLES (interposing). Might I make one thing clear that I think will help get this picture clearer in the minds of the committee, that the person insured rarely has any knowledge of the reinsurance connected with his policy. He deals only with the company that issues the policy in the first place, and the premium paid by the policyholder is exactly the same whether part of his policy is reinsured or not reinsured.

Mr. GESELL. Yes; reinsurance is purely something which the management of an individual company may desire to increase its protection.

Mr. CATHLES. To enable it to compete on more even terms with larger companies, to increase the safety and avoid fluctuation and losses by spreading the risk.

Mr. GESELL. I want to show you now with respect to the reinsurance conference which I mentioned a moment ago a letter addressed to you, dated May 15, 1929, from Mr. Herbert M. Woollen, president of the American Central Life Insurance Co., and ask you if you recognize that as a letter which you received?

Mr. CATHLES. Yes.

Mr. GESELL. The last sheet is a correct copy of your reply thereto, is it not?

Mr. CATHLES. I think so. It has every appearance of being correct.

Mr. GESELL. The letter states [reading from "Exhibit No. 822"]:

As I told you in Biloxi, Henry Buttolph was then in Fort Wayne for a conference with Arthur Hall.

Who is Henry Buttolph?

Mr. CATHLES. He was actuary of the American Central Life Insurance Co.

Mr. GESELL. Does the American Central write reinsurance?

Mr. CATHLES. It did at that time. The American Central is no longer in existence.

Acting Chairman REECE. Would you mind, Mr. Cathles, speaking just a little louder? I think the reporter is having a little difficulty in hearing you.

Mr. GESELL. And who is Mr. Arthur Hall?

Mr. CATHLES. The Arthur Hall there referred to is the president of the Lincoln National Life Insurance Co.

Mr. GESELL. Did it also write reinsurance?

Mr. CATHLES. Yes, sir.

Mr. GESELL [reading further from "Exhibit No. 822"]:

The conference resulted in their concluding that we were all indulging in practices in the reinsurance business which were very detrimental to the business and to our several companies and that a group of us should meet for the purpose of devising means for doing away with these abuses, if possible.

Therefore, I am today inviting you and Arthur, as presidents of your companies, to be my guests at luncheon at the Edgewater Beach Hotel on Wednesday, June 5, at 12:30, for the purpose of discussing these problems in a broad and very general way.

Following the luncheon, I suggest that we adjourn to a more general meeting where the discussion could be more detailed and made to include our associates whom we had brought to Chicago with us. At such a meeting our company would be represented by Harry Wilson, Henry Buttolph, and me. I suggest that if you approve of this arrangement you bring persons in similar executive authority in your organization, to the end that such conclusions as we may be able to arrive at may be fully understood and faithfully carried out. At this general meeting, it would be my hope that each of us would, in a strictly impersonal way, present all of the practices in the business which seem to him to be destructive and at the same time present such constructive ideas as seem to him to be proper.

I am aware that this small group does not cover the reinsurance field. However, my thought is that if we could agree upon a program, we might deem it advisable to call a more general meeting in the hope that that program, modified if necessary, might come to be regarded as the general code of behavior for this branch of the business. On the other hand, I feel that it would be extremely inadvisable to call a larger meeting until after our three companies had attempted to arrive at a general understanding.

I have suggested this date because the insurance commissioners, the disability committee of the American Life convention, and the Institute of Actuaries are all meeting in Chicago at this time and place, and I assume that it would be more convenient for us to meet there than elsewhere.

I wish to offer this letter for the record.

Acting Chairman REECE. It may be admitted.

(he letter referred to was marked "Exhibit No. 822" and is included in the appendix on p. 4918.)

Mr. GESELL. I gather from that that there were in 1929 some problems which were troubling the reinsurance executives. I would appreciate your telling us a little what those problems were.

Mr. CATHLES. The chief thing in our minds, I think, was a very destructive rate-cutting.

Mr. GESELL. Will you tell us what you mean by that?

Mr. CATHLES. I mean that one company would overnight put out a scale of rates that were perhaps 10 cents a thousand less than its competitors'. That was really the principal thing that I remember that brought about this talk, and the feeling that the writing companies with whom we were dealing were playing one reinsurer against the other and saying, "Why, I can get a lower rate than that in 30 minutes over the telephone," and we felt they probably could. It was just upsetting the whole thing. Rates were really not so important as the confusion and agitation at that time made out. The underwriting of the risks at those rates was very much more important, and each com-

pany retained its own underwriting rules. I don't know that I can explain it any further, Mr. Gesell. It was just one company cutting its rate and advertising the fact, and trying to get advantage by doing it, and that leading in our minds—we felt that would lead to a situation where the reinsurance business would be entirely upset and the departments that had been established would not be of much use any more, and my company, which only did reinsurance, would maybe just have to give up.

Mr. GESELL. In other words, one company would quote a slightly lower rate and the business would start to drift in the direction of that company, so the other companies would come a little lower in order to get back some business, and generally it was an open cut-rate business at that time?

Mr. CATHLES. Yes; to an excessive extent; we felt to a dangerous extent, an unwise extent, that threatened the safety of the entire business.

Mr. GESELL. I take it that your rates weren't, at that time, controlled by any regulatory body.

Mr. CATHLES. No, sir; they never have been, except as they are controlled by the State laws, which provide certain reserve standards.

Mr. GESELL. But there was then, and there is now, no body which would be able to set up uniform rates for the business?

Mr. CATHLES. No, sir; there is only that statutory legal minimum that is based on the reserve standards of the different States.

Mr. GESELL. And am I correct in saying that at this time, partly because of these cut-rate activities, the companies were frequently writing a low grade of business?

Mr. CATHLES. Do you mean the writing companies or the reinsuring companies?

Mr. GESELL. The reinsuring companies.

Mr. CATHLES. I don't think so. The only effect I can think of would be that if we knew we were getting a very starvation premium for it, we would have to be awfully careful in the kind of risks that we took.

Mr. GESELL. Were companies, reinsuring companies, increasing special terms in their policies, the liberality of their policies, and offering special services in order to meet the cut-rate competition of some other company, and in that way departing from what might be considered sound underwriting practices?

Mr. CATHLES. I don't know whether it was designed to meet lower rates or not, but a lot of that was being done by several companies to an extent that we thought was stupid, loaning a man to make up a company's financial statement at the end of the year, to outline a system of accounting for them, to show them how to run their offices—those things are all right to a certain point. All companies do them, and exchange information very freely. But when it goes beyond a reasonable extent it is patently an additional inducement to secure a reinsurance contract.

Mr. GESELL. Well, now will you tell us what took place at this conference in Chicago and what type of program resulted from the conferences held at that time?

Mr. CATHLES. Mr. Gesell, I can't remember that conference. I didn't believe it ever took place. There was a conference that took

place very soon after that in Fort Wayne; that is the first conference that I remember.

Mr. GESELL. Has that exhibit already gone downstairs? In your letter of acknowledgment you stated [reading from "Exhibit No. 822"]:

I was very much interested to receive today your letter of the 15th. All of your suggestions appeal to me and I shall be most happy to lunch with you and Mr. Hall at the Edgewater Beach Hotel June 5.

Is it your recollection that for some reason that meeting was postponed and held elsewhere at another time?

Mr. CATHLES. I have a vague recollection that Mr. Hall was not present in Chicago; I expect that I was at those other meetings and probably Mr. Woollen also was, and we probably met, but I don't recollect any discussion of the post reinsurance question.

Mr. GESELL. When did you finally get down to brass tacks on the subject matter of this letter?

Mr. CATHLES. It was in Fort Wayne, I think, the following month.

Mr. GESELL. Who was present, Mr. Cathles?

Mr. CATHLES. I am sorry; I don't have that. I think you must have a copy of that. If you have a copy of a letter from Mr. Woollen to Emmett May of the Peoria Life, that gives a complete description of those present and what was brought up for discussion.

Mr. GESELL. Do you refer to this letter which I now show you? That is the letter that summarizes the discussions that took place.

Mr. CATHLES. It gives a very complete description of the entire meeting.

Mr. GESELL. I should like to read a portion of the letter for the record [reading from "Exhibit No. 823"]:

This letter is my attempt to carry out my promise to you to report the results of the recent meeting with reference to reinsurance questions. I had an understanding with the representatives of the other companies present that I would send them a copy of this letter and that they in turn would write you anything further that seemed to be required.

You will doubtless hear from them shortly. The meeting was opened at the Keenan Hotel on the morning of June 26 and adjourned to the country club where luncheon was served and the meeting carried to its conclusion.

The Lincoln National was represented by Messrs. Hall and McAndless; the North American Reassurance was represented by Messrs. Cathles, Coburn, and Oden; while the American Central was represented by Messrs. Buttolph, Wilson, and myself.

The representatives of the companies first indulged in a general discussion of the reinsurance business and the necessity of its being put into a more orderly condition, the delegations unanimously agreeing that there was a crying need for change and improvement. They also pledged themselves to use their best efforts toward bringing them about.

After thus clearing the general atmosphere, the following 16 subjects were suggested as being the things in the business most needing consideration:

1. Rate cutting.
2. D. I. rate cutting.
3. Disability rates and commissions.
4. Giving out M. I. B. information, directly or indirectly.
5. Furnishing actuarial and accounting services by reinsurance companies.
6. Furnishing underwriting service by reinsurance companies.
7. Coinsurance, guaranteeing the dividends of participating companies.
8. Traveling representatives from the reinsurance company.
9. Supplying the forms, manuals and other data in an organized way.
10. Underbidding on substandard business, either by changing the rating of the underwriting department or by changing the rate.
11. Refunding mortality savings.

12. Refunding taxes on reinsurance premiums.
13. Twisting of each others accounts, directly or indirectly.
14. Issuing D. I. without life reinsurance.
15. Issuing disability without life reinsurance.
16. Handling of applications under aviation and submarine operations.

There seem to have been a lot of matters for discussion at that time, Mr. CATHLES. Would you say that it was correct that the rate cutting, which heads the list, was the principal matter up for consideration?

Mr. CATHLES. I think it was; I know it was foremost in my mind.

Mr. GESELL. I notice that the memorandum states that:

Nos. 1, 2, and 3 entails rate cutting, double indemnity rate cutting, disability rates and commissions, and underbidding on substandard business were discussed more or less together, and it was agreed that rates, commissions, and underwriting practices should be made as nearly uniform and standard as possible and that the practice of cutting and underbidding would immediately be discontinued.

Mr. CATHLES. That matter of underwriting, uniform or harmonizing our rules for underwriting, was never followed up. Our underwriting has always remained an entirely individual matter with each company.

Mr. GESELL. You have had some underwriting rules enacted, have you not?

Mr. CATHLES. We have made some general, very temporal rules.

Mr. GESELL. May I offer this letter for the record, please?

Acting Chairman REECE. It may be admitted.

(The letter referred to was marked "Exhibit No. 823" and is included in the appendix on p. 4919.)

Mr. GESELL. That was a letter written by Mr. Woollen, was it not?

Mr. CATHLES. Apparently it was.

Mr. GESELL. Am I correct in saying that as a result of these conferences a special subcommittee was formed for the purpose of recommending uniform rates?

Mr. CATHLES. Yes; they worked on those rates and they made up a schedule of rates which did not differ a great deal from the rates in use at that time, and a majority of the companies subsequently used these rates; not all of them.

Mr. GESELL. How many companies used the rates, Mr. Cathles? Can you name them for us?

Mr. CATHLES. I think perhaps I could. The membership of the conference has changed from time to time, but the American Central, I am quite sure, used them; the Lincoln National, North American used them because they were simply a continuance of North American rates, with very few minor changes, medical changes in the first year of the premiums. The Travelers, and I am not sure about the Peoria Life. They indicated a desire to come into the conference with us and act with us, but they didn't stay in the conference very long, and I am not sure whether they stayed in long enough to change their rates.

Mr. GESELL. Am I correct that the first three companies, whose names you mentioned, are the three largest companies writing life reinsurance?

Mr. CATHLES. I don't believe that was true at that time.

Mr. GESELL. They are at the present time, are they not?

Mr. CATHLES. I think today the Lincoln National is the largest, and I am not sure about the Metropolitan. The Metropolitan was the largest at that time.

Mr. GESELL. They have since——

Mr. CATHLES. They have lost interest in the reinsurance business, as have the Connecticut General and the Travelers.

Mr. GESELL. And as a result the three companies whose names you first read are the leaders in the business, are they not?

Mr. CATHLES. The American Central, Lincoln National, North American. I should think they today lead in that yearly term business.

Mr. GESELL. Have the rates which were recommended at that time been followed ever since?

Mr. CATHLES. Practically all the direct writing companies have raised their rates, but these reinsurance rates have not been raised.

Mr. GESELL. Those original rates which you set back in 1930 have been followed ever since by the companies who are members of the conference?

Mr. CATHLES. By those companies which adopted it. The Metropolitan and Sun Life of Canada did not ever adopt these rates, unless the Metropolitan has adopted them this year.

Mr. GESELL. But with respect to the other companies whose names you mentioned, they have followed those rates consistently since 1930, have they not?

Mr. CATHLES. I think that is a fair statement. I know there have been lots of violations of these rules by all the companies, but substantially I think that is true.

Mr. GESELL. When you referred to violations of the rules, did you have perhaps in mind what Mr. Woollen had in mind when he wrote Mr. Coburn on August 22, 1930, and said [reading]:

Dr. Stutsman still seems to be shy on the minutes of the past meeting of the reinsurance conference and its subcommittees and resolutions and what not. It seems he has been out doing a little rate cutting and otherwise violating the conference understanding in a perfectly innocent way. Anything you can do to bring him up to date would be for the good of the order, I am sure.

Mr. CATHLES. Dr. Stutsman was a fine old gentleman. He is a medical doctor and his company has long since been out of business, and we all felt that if the old doctor had done that, it was just a mistake and we would just shut our eyes to it.

Mr. GESELL. Is that the kind of violation of the rules you had in mind when you said that they had been departed from on occasions?

Mr. CATHLES. I can't remember any actual rate cutting, Mr. Gesell.

Mr. GESELL. There has been a pretty steady adherence to those original rates set down, has there not?

Mr. CATHLES. Yes, sir. Of course, it was a voluntary organization. Appearance was a voluntary matter with the companies; there was no penalty against any infraction. They could withdraw from the conference any time they wanted and say, "We are out now and we are going to make our own rules, and not regard the conference rules any."

Mr. GESELL. The facts are, they did not.

Mr. CATHLES. Even when they left I think they continued very substantially to follow the so-called rules laid down by the conference because they appealed to them as reasonable rules for the conduct of the business.

Mr. GESELL. And the rules and rates that were established by the conference have been, to some extent, followed by companies which were never members of the conference at all, have they not?

Mr. CATHLES. I can't tell you that, but I am sure they had an influence on them.

Mr. GESELL. I had in mind particularly the Reinsurance Association.

They have rather closely followed the rules and rates established by the conference, haven't they?

Mr. CATHLES. That I can't say, Mr. Gesell.

Mr. GESELL. You say you are sure they have had an influence.

Mr. CATHLES. The association was formed before the conference was formed.

Mr. GESELL. You say they had an influence. On whom did they have an influence?

Mr. CATHLES. I think those conference rates have come to be generally accepted all over the country as sort of reasonable rates for that kind of business.

Mr. GESELL. Do you recognize—

Mr. CATHLES (interposing). All kinds of companies do reinsurance.

Mr. GESELL. Do you recognize this memorandum which I show you as a report of the committee on rates and underwriting, which was appointed at the meeting which we discussed a moment ago?

Mr. CATHLES. Yes; I think that is the report of the meeting.

Mr. GESELL. I notice that the report says [reading from "Exhibit No. 824"]:

The efforts of the committee were directed to encourage constructive rather than destructive competition between the respective companies, and with that end in view the committee arrived at certain rates and rules which in their opinion can be recommended to promote the best interests of the business.

The determination as to what practices were destructive and what practices were constructive was made entirely by the members of the conference themselves, was it not?

Mr. CATHLES. Yes, sir.

Mr. GESELL. I wish to offer this for the record.

(The document referred to was marked "Exhibit No. 824" and is included in the appendix on p. 4921.)

Mr. GESELL. We referred a moment ago to certain general conference rules of an underwriting nature which were adopted by the members of the conference. Can you tell us what the nature of those rules was, Mr. Cathles?

Mr. CATHLES. I am not sure I can remember all of them. I do remember the principal ones.

It was decided that \$750,000 of insurance was about a deadline over which no man could safely go in reinsurance. If a man had that amount of insurance, the rate of mortality was just too high.

We were discussing the question of how much accident insurance we should participate in the reinsurance of, and I think there was a rule made about that.

Mr. GESELL. You had a rule to prevent mortality refunds, did you not?

Mr. CATHLES. Yes; that was along the same lines, rate cutting rather than underwriting, because that was giving back to a company

a share of the profits of the business if any profits were made. Those are lower rates in underwriting.

Mr. GESELL. Do I understand the rates you established are related only to the yearly renewable term business?

Mr. CATHLES. Yes.

Mr. GESELL. You also in effect, however, standardized the rates for coinsurance, double indemnity, and disability by establishing uniform commissions.

Mr. CATHLES. Yes, sir.

Mr. GESELL. Do you recognize these documents which I now hand you as embodying the principal underwriting rules of the conference?

Mr. CATHLES. I am not sure that this is the latest copy of the rules, after being amended.

Mr. GESELL. I think you will find the recent amendments on the last two or three pages of those documents.

Mr. CATHLES. Oh, I see. That seems to be a reasonably complete copy of the current rules of the conference.

Mr. GESELL. It would be fair to say that there is no outstanding present underwriting rule which isn't recorded in these documents?

Mr. CATHLES. I couldn't think of any as I read them over. I think that is pretty complete.

Mr. GESELL. I would like to offer these rules.

Acting Chairman REECE. They may be admitted.

(The rules referred to were marked "Exhibit No. 825" and is included in the appendix on p. 4922.)

Mr. GESELL. Just in passing, there was one statement you made about which I wanted to ask one or two questions. You said the Sun Life and Metropolitan didn't follow the rates recommended by the conference. Is it not true, however, that the rates of the Sun Life and the Metropolitan were by and large comparable to the rates that were being charged by the conference companies?

Mr. CATHLES. We felt they did not differ a great deal from the conference rates.

Mr. GESELL. And you felt that the difference was of such a small character that there was not any decided competitive advantage in the particular rates which they had?

Mr. CATHLES. I don't feel like going that far. I think we all felt there was a decided competitive advantage in the Metropolitan rates.

Mr. GESELL. You say you felt the rates were comparable.

Mr. CATHLES. It wasn't so far out of line that we objected.

Mr. GESELL. It wouldn't fall in the classification of rate cutting then?

Mr. CATHLES. No, sir.

Mr. GESELL. Did your organization, your conference, have a formal constitution and bylaws and officers and that sort of thing?

Mr. CATHLES. No, sir; we had nothing of that kind. It was a very informal thing.

Mr. GESELL. How often do you meet?

Mr. CATHLES. Well, we have been meeting about once a year, and it is sometimes hard to get them to meet once a year. A lot of them have said, "This thing's dead, so we are not going to meet again until we have something to discuss."

Mr. GESELL. In other words, having reached the basic decisions on certain underwriting rules and certain rates, there was very little else to be done.

Mr. CATHLES. Well, I don't know; you always talk about underwriting rules. Those underwriting rules that you refer to are a very small part of the underwriting rules. For instance, here is a book of perhaps 130 or 140 pages. These are North American's underwriting rules.

Mr. GESELL. Well, I was of the impression that the rules which you reached some unanimity upon and which you discussed at your conference must have been underwriting rules of some significance, or you wouldn't have bothered to talk about them.

Mr. CATHLES. Yes; they were, but they were general rules.

Mr. GESELL. They were general rules, perhaps, but they were rules which you considered necessary as fixing certain maximum or minimum standards in important underwriting areas; is that correct?

Mr. CATHLES. You are perfectly correct. We wouldn't have bothered to discuss them if they hadn't been important or if we hadn't felt them important.

Mr. GESELL. Particularly those rules which were sort of ancillary to your uniform rates and designed to prevent rate cutting. They were of extreme importance as underwriting rules, were they not?

Mr. CATHLES. I don't think there were any—

Mr. GESELL (interposing). I had in mind the mortality refund rule, for example.

Mr. CATHLES. That was tied up with rate cutting. I don't call that an underwriting rule. It hasn't anything to do with underwriting, except that the profits come out of underwriting.

Mr. GESELL. What about all your rules limiting the type of service which the companies could provide to the direct-writing companies? Were those underwriting rules or do you put those in the classification of rate rules too?

Mr. CATHLES. I do, sir, because as I said, when those services were given beyond a certain reasonable point it seemed to me plain that they were additional inducements for the securing of a reinsurance contract.

Mr. GESELL. So you would classify those rules also not as underwriting rules, but as rate rules?

Mr. CATHLES. Well, rules to avoid what we thought were unsound situations in the business causing confusion and upset.

Mr. GESELL. Then I should just change my terminology, Mr. Cathles. You did enter into quite a number of rules which had a direct relation to the day-to-day conduct of your reinsurance business, did you not?

Mr. CATHLES. Yes, sir.

Mr. GESELL. Did you give any thought, or did anyone give any thought during this time, to the applicability of the antitrust statutes to this type of organization?

Mr. CATHLES. I don't think anybody thought seriously of that, or had any idea that we were in danger of violating any laws.

Mr. GESELL. Did you seek any legal counsel on that matter at all?

Mr. CATHLES. No, sir; at least, I can only speak for myself. I thought it was too far fetched an idea to bother about.

Mr. GESELL. And there was no discussion about it in any of the meetings.

Mr. CATHLES. Not that I know of, sir.

Mr. GESELL. My question was prompted to some extent by a letter of Mr. Coburn, who is in your office, is he not?

Mr. CATHLES. He used to be; he no longer is.

Mr. GESELL. He wrote to Mr. Buttolph, of the American Central Life Insurance Co., on November 30, 1929, and one portion of his letter said, referring to a discussion that he had with several other men, including a Mr. Craig, and a Mr. Torrey, "I said that it is probably expected of our committee, without conflicting with any of the anticontract laws, to establish a set of conference rates that could be recommended to all of the members of the conference." That indicated there must have been some consideration of the problem in his mind at least. You didn't talk to him about it?

Mr. CATHLES. Yes; I asked him what he meant by that and he said, "Oh, it didn't mean anything." I said, "We don't want to violate any laws." He said, "I don't know of any laws that we would be violating," and that was as far as I remember the discussion went.

Mr. GESELL. Was it because of the fact that you felt that any company was free to adopt or reject these rates at any time, that there was no mandatory obligation on any company to follow the rates, that you felt free in your mind that the antitrust statutes weren't involved? Was that the feature of your arrangement that you felt kept you free from any such violations?

Mr. CATHLES. No, sir; I felt that we were not dealing with the public at all, that we were simply spreading risks as a service for life-insurance companies, and that we were subject only to state supervisory laws.

Mr. GESELL. Well, the State supervisory laws didn't relate themselves in any way to the activities of your conference, did they?

Mr. CATHLES. That is a pretty hard question to answer. I don't know, Mr. Gesell.

Mr. GESELL. They certainly didn't directly. There was no representative of the State present or no particular statutory provision which permitted your conference to establish these uniform rates.

Mr. CATHLES. No, sir.

Mr. GESELL. You say you weren't dealing with the public. I take it the operations of your business, however, very much affect the public indirectly, since they are a cost factor in the operation of the direct-writing companies.

Mr. CATHLES. That again I am not sure that I understand, because almost all of these companies were stock companies, and any saving in reinsurance premiums or printing and stationery or other expenses, I think, would more likely be for the benefit of stockholders. I never heard it suggested that the cost of reinsurance was an element in calculating the premiums for life insurance. The fact of the matter is that broadly speaking, you may say there is no cost of reinsurance to a reinsuring company because it simply hands over to us a part of the premium it collects from the insured. The cost is this: If there is any mortality savings in the premium which it hands over to us, then the reinsuring company gets those mortality savings and the original company would have had those if it hadn't reinsured the business.

Mr. GESELL. It is true that if I am in the business of selling insurance, I have to pay for reinsurance which I may put on the books of

my company, and the cost of that reinsurance is one of the expenses that I must meet in the operations of my business, is it not?

Mr. CATHLES. As I explained, the principal cost of the reinsurance is that you hand over a part of the premium you collect, and if you didn't have the reinsurance at all you wouldn't issue that part of the policy, so that it looks as if you just would be in the same position as if you only issued a \$10,000 policy instead of a fifteen and reinsured five of it.

Mr. GESELL. But that is assuming the companies wouldn't write the policies unless they had reinsurance, but in some cases they quite possibly would, wouldn't they?

Mr. CATHLES. And keep them for themselves?

Mr. GESELL. Yes; take the risk, in other words.

Mr. CATHLES. All companies establish a limit which they think it is safe for them to take in the way of risk. They are not very apt to go beyond that limit, although in some companies it is a little flexible. It may be 10,000 or 12,500, depending on what they think of the risk. But this reinsurance business, Mr. Gesell, is—an estimate that I have seen made anyway, is that it is less than 2 percent of the life-insurance business. It is a very small fraction of it.

Mr. GESELL. Of course, when we are talking about percentages in the life insurance business we are talking about pretty big figures.

Mr. CATHLES. Yes, sir.

Mr. GESELL. On that general question, Mr. Cathles, I notice from some of the correspondence that the conference had been discouraging participating reinsurance.

Mr. CATHLES. Yes, sir; that is true.

Mr. GESELL. Is there any particular reason for that?

Mr. CATHLES. Again I can speak only for myself, Mr. Gesell. I considered it unsound. It seemed to me a stupid position to be in, to have, say, two reinsurance contracts, one of which you had a loss, say of \$20,000 on, and the other on which you had a profit of \$10,000, and then to pay a dividend when you had a net loss for the year of \$10,000 on your operations.

Mr. GESELL. You see what I had in mind, I am sure, that if your conference is establishing rates, if those rates were for participating insurance it might be possible to argue that the companies from a net-cost point of view paid just what it cost to carry the reinsurance. But here where you are establishing uniform reinsurance rates which are nonparticipating, it seems to me that you are in the position of in a way thereby fixing the margin of profit which you desire to take out of that kind of business, and you may, over a period of time, at least to some extent, increase the cost of insurance to policyholders who have their insurance in the direct-writing companies.

Mr. CATHLES. Of course, to a reinsurance man that seems very nebulous, and I think that you are overlooking entirely this underwriting which I have referred to more than once. I don't know if I can make the point clear. These points are terribly technical. I am trying to avoid technical terms so as to get it quite clear. But it is perfectly possible for companies, two reinsuring companies, with the same rates, each taking one-half of every risk from an individual company in the way of reinsurance which it has to give up, to get a different compensation from that company for these risks, because of

different underwriting. That is to say, that a risk may be submitted to Company A, and it considers that that is a substandard risk, that the premium charged for it should be 25 percent in excess of the standard rate. Company B might not think so. It might think that was a perfectly standard risk and accept it at 100 percent, so that it is possible if one company was much stricter in its underwriting than the other company these two companies sharing the same volume of business might receive different premiums.

Mr. GESELL. Of course, it is true, isn't it, Mr. Cathles, that there are reinsurance companies in the United States which do write participating reinsurance much more frequently than do the members of your particular conference? There is a split of opinion on this question of participating reinsurance within the business itself, isn't there?

Mr. CATHLES. I am not sure that I can answer that, Mr. Gesell. I know that some companies use that participating method, but the ones that I know use it mostly simply exchange business amongst themselves.

Mr. GESELL. You mean they have entered into some sort of pool agreement?

Mr. CATHLES. Yes; and I rather think that the participating yearly renewable term reinsurance contract is practically out of date. There are some still in existence. These contracts live as long as any policy exists under them, and my own company has one or two of these contracts, but I don't remember one of these contracts being made in recent times.

Mr. GESELL. I have no further questions.

Acting Chairman REECE. Have you any questions, Congressman Williams?

Representative WILLIAMS. I think not.

Acting Chairman REECE. Mr. Blaisdell?

Mr. BLAISDELL. At the time when this rate cutting was proceeding, along in 1929, was there indication that this portion of the business of the companies was being written without profit?

Mr. CATHLES. Yes, sir; some of the companies stated that, that they were writing business at a loss.

Mr. BLAISDELL. Were they at the same time paying dividends?

Mr. CATHLES. That I don't know, sir.

Mr. O'CONNELL. Mr. Cathles, as I understand your testimony, generally it is to the effect that by virtue of the arrangement made in 1929 and 1930, price competition has, to a large extent, been eliminated in your field; is that a fair statement of what has happened?

Mr. CATHLES. With a little restriction, sir. The pressure of competition has been transferred from rates to underwriting.

Mr. O'CONNELL. It is no longer on price?

Mr. CATHLES. It is no longer on the rates, but competition still exists and is very keen.

Mr. O'CONNELL. You mean in getting business?

Mr. CATHLES. Yes, sir; and in the underwriting. Each of these companies that we do business with keeps track of these things. They enter up the premiums they pay us and the losses that we pay back to them, and whenever that balance is materially against them, they show it to us and grumble.

Mr. O'CONNELL. But the grumbling hasn't done any good so far, has it? The rates have remained unchanged since 1930.

Mr. CATHLES. Yes; but they are always in a position to protect themselves.

Mr. O'CONNELL. How; by not using the service?

Mr. CATHLES. No, sir; not exactly in that way, if I understand what you mean; but there are about 300 life-insurance companies in this country and every one of them is equipped to do reinsurance business, and if at any moment a company didn't like or thought our rates were too high, in all probability they could go across the street or to a neighboring town, to a neighbor company, and say: "Look here, I am not going to pay these rates any more. Can't we get together on reinsurance?"

Mr. O'CONNELL. I wasn't suggesting the people with whom you deal were entirely helpless to deal with the situation. I was trying to indicate that within your group price competition is no longer a factor; isn't that a fair statement of the situation?

Mr. CATHLES. I think that is a fair statement.

Mr. O'CONNELL. And that situation having been brought about, I also understood you to say that your committee or the group no longer has a function which is really worth considering. Some thought you might as well abandon it, that the job has been done.

Mr. CATHLES. There has been something of that sort said, but you must remember if the conference broke up, then there would be no rules, there would be no rates, no conference rates, and the entire situation would revert to what it was prior to the conference, except that we think everybody knows a good deal more about how this reinsurance business ought to be done.

Mr. O'CONNELL. Of course, it is entirely possible, I suppose, that at some time some consideration might be given to a change in the rates that were established in 1930.

Mr. CATHLES. Yes; a number of companies have asked us when we were going to raise the rates.

Mr. O'CONNELL. That is usually the way it works.

Mr. CATHLES. They have been raising their own rates and they know the costs have gone up and they know the tendency of the losses in reinsurance has been to increase as compared with the losses on direct writing business.

Mr. O'CONNELL. I assumed in such a situation, I think the general tendency usually is once the situation has been controlled, that whatever pressure there is in the organization would ordinarily be in the line of increasing rates rather than the reverse; wouldn't you say that was a fair statement?

Mr. CATHLES. I don't know.

Mr. O'CONNELL. I can see no reason for pressure within your group for a reduction in the rates, can you?

Mr. CATHLES. And I can see little pressure for raising the rates unless conditions developed which made it appear plainly that we were going to face losses rather than profits. But you see, as I say, those companies are not helpless by any means. They can form their own little groups and exchange the business, or they can go across the street and get another reinsurance arrangement, and they are all trained life-insurance men, they know just as much about the business as we do.

Mr. O'CONNELL. I wasn't intending to indicate this situation was as bad as it might be in some other lines where you have the degree of price control that exists here. I was merely trying to make it perfectly clear that the price control does exist and there is no price competition in that field, and that except as some new group might come into the business, or that life-insurance companies with which you deal might become so annoyed or perturbed with the situation that they would go into the business themselves—well, that is all there is to it. I mean there is that possibility, it is true, I suppose. It is also true that somebody might go in the aluminum business, too, but I was merely wanting to make it perfectly clear as I understood you to testify, that price competition from your standpoint has been eliminated in the industry and you believe it is a desirable thing to do.

Mr. CATHLES. I think that is perfectly fair if you don't forget the underwriting pressure.

Mr. O'CONNELL. Well, that is another form of competition, I suppose.

Mr. CATHLES. And also there is another thing that has not been brought out here today. There is no uniformity in contracts. Each reinsuring company writes its own contract.

Mr. O'CONNELL. But there is uniformity in rates in the contracts, I take it.

Mr. CATHLES. There is uniformity in rates, but what you get for the rates is not necessarily uniform, and one is just about as important as the other.

Mr. O'CONNELL. Would you think that undesirable? Would you prefer that that lack of uniformity be eliminated too?

Mr. CATHLES. That lack of uniformity has a pressure to disappear from the companies themselves, from the insuring companies, because they come to me and say, "But you don't have this privilege in your contract and I can get that from somebody else." Of course, I put it in if I can.

Mr. O'CONNELL. Could you answer my question specifically? Would you think it desirable to eliminate that pressure, too?

Mr. CATHLES. No; I think that—

Mr. O'CONNELL (interposing). You think that is a desirable type of pressure?

Mr. CATHLES. Yes; and also I think that the underwriting is necessarily an individual thing.

Mr. O'CONNELL. Why?

Mr. CATHLES. Because that is our individual opinion as to whether a risk is acceptable or not.

Mr. O'CONNELL. I see. But you no longer have an individual opinion as to what rate you should charge?

Mr. CATHLES. No; but I know what the rate is I am getting, and I think I know whether that risk is acceptable at that rate, and I exercise my judgment as to whether I am willing to take that at 100 percent of the rate or 125 percent of it, or 120.

Mr. O'CONNELL. But always going up. You couldn't exercise your judgment to accept a particularly desirable risk at 95 percent of the rate or 90 percent of the rate, could you?

Mr. CATHLES. No, sir; but we accept many risks that really rate 120 percent at the 100-percent rate.

Acting Chairman REECE. Are there any other questions?

Mr. MEYERS. Mr. Cathles, I infer from your testimony that you consider rate cutting a harmful and unethical practice, with a resulting impairment to both your company and the rate cutter; is that so?

Mr. CATHLES. I am not quite clear as to your question.

Mr. MEYERS. My impression from the opening statement by you was that rate cutting per se, itself, is a dangerous practice in the insurance field.

Mr. CATHLES. No; I intended to say that rate cutting carried to an excess, where it threatened destruction of the business, was, in my opinion, unsound and dangerous.

Mr. MEYERS. And as a result the conference was organized to more or less stabilize the rates?

Mr. CATHLES. To stabilize the whole business of reinsurance, and I believe that the writing companies are just as satisfied with the results as the reinsuring companies are.

Mr. MEYERS. Conferences of this sort require time, money, and energy. Would you devote that same time, that same money, and energy to correcting the habits of a company who had raised the rates, placing that company at a competitive disadvantage?

Mr. CATHLES. I don't follow you. The conference is not an expensive thing to begin with. There are no expenses in the conference.

Mr. MEYERS. The expense of travel, the expense of your time, the attendance at meetings.

Mr. CATHLES. The meetings are nearly always held when some other meetings are being held at the same place.

Mr. MEYERS. Would you have the same meetings if X company, X reinsurance company, would raise its rates? Would you go on a missionary expedition to that company and explain to them that their rates are too high, that their rates should come down?

Mr. CATHLES. No, sir.

Mr. MEYERS. Your only concern, then, is when other companies cut their rates, which in your opinion are destructive, then you would devote time and energy to correcting that so-called evil?

Mr. CATHLES. No, sir; we have not done so, and I don't think that we would.

Mr. MEYERS. Well, that is my impression in this conference; you sat around a table and discussed rates and discussed the fact that certain rates were abusive, certain level of rates was abusive.

Mr. CATHLES. Mostly rates we were discussing.

Mr. MEYERS. You wouldn't maintain those rates if other companies didn't maintain the same rates? You would either bring yours up or bring them down to meet the level of the majority, would you not?

Mr. CATHLES. That would always be the tendency, but I don't remember anything of that sort happening, except I know rates were reduced from time to time.

Mr. MEYERS. There is no great interest or excitement on your part where another company might raise its rates? It is only where another company might reduce its rates?

Mr. CATHLES. There wouldn't be excitement then.

Mr. MEYERS. Well, I think Mr. Woollen was considerably excited to write this letter.

Mr. GESELL. You would be excited, wouldn't you, if some member of the conference reduced its rates below the rates that had been established?

Mr. CATHLES. Someone would immediately point out to them that they had done so, and I think if they persisted or if that spread, the conference would just break all to pieces.

Acting Chairman REECE. Thank you, very kindly.

(Whereupon the witness, Mr. Cathles, was excused.)

Mr. GESELL. I have one witness that will take just about 5 minutes. Dr. Davenport, will you take the stand, please?

**DR. DONALD H. DAVENPORT, ECONOMIC ADVISER, SECURITIES
AND EXCHANGE COMMISSION—Resumed**

TERMINATION OF LIFE INSURANCE—ORDINARY AND INDUSTRIAL

Mr. GESELL. If the committee please, when we presented some testimony with respect to terminations and lapse, the committee directed a considerable number of questions to the witness, Mr. John Marshall Holcombe, Jr., with respect to whether or not there was any relationship between lapse ratios, on the one hand, and new business written, and size, on the other.¹ We have prepared on the basis of some figures made available to us and in the record, from Mr. Holcombe, certain comparisons which I would like to present to the committee through the testimony of Dr. Davenport.

You have already been sworn?

Dr. DAVENPORT. I have been sworn.

Mr. GESELL. Do you recognize this table entitled "1937 lapse ratios compared with the relative sales rates during 1935 and 1936" as a schedule prepared under your direction?

Dr. DAVENPORT. I do.

Mr. GESELL. Do you similarly recognize the schedule entitled "The 40 United States life-insurance companies for which the Life Insurance Sales Research Bureau computed 1937 lapse ratios"?

Dr. DAVENPORT. Yes, sir.

Mr. GESELL. I wish to offer these tables for the record.

Acting Chairman REECE. They may be admitted.

(The schedules referred to were marked "Exhibits Nos. 826 and 827" and are included in the appendix on pp. 4926 and 4927.)

Mr. GESELL. Have you any comments, Dr. Davenport, which you wish to make with respect to the two tables which have just been introduced?

Dr. DAVENPORT. We recall that the termination of insurance by lapse occurs because of the nonpayment of premiums before the policy has been in force long enough for it to have a cash surrender value. As cash surrender values are not generally available in ordinary insurance until after policies have been in force 3 years, practically all ordinary lapses take place before the insurance has been in force 3 years.

Indeed, from studies that have been made by individual companies, it appears that the great bulk of lapses, perhaps as much as 75 or 80 percent, occurs in the first 2 policy years. It also appears that approximately twice as many policies lapse during the first policy year as lapse during the second policy year. It is clear, therefore, that

¹ Supra, pp. 4332-4335.

the amount of lapsed insurance is closely related to the amounts of new business that has been placed upon the books of the company in the preceding 2 years.

The Life Insurance Sales Research Bureau quite properly recognized this fact in devising their formula for the measurement of the lapse rates of individual companies. Every quarter of the year the bureau computes lapse ratios for each of a number of companies which voluntarily submit the necessary information to it. The formula employed by the bureau is to total the amount of insurance regarded as lapsed, the amount going out of force, because of nonpayment of premiums before premiums for 2 full years have been paid, and to express this as a percentage of the average quarterly sales during a 24-month period ending 2 months before the beginning of the quarter in question.

In other words, the amount of business that lapses in a given quarter is expressed as a percentage of the average quarterly business done in a 2-year period, but the 2-year period ends 2 months before the quarter in question. Thus, if the lapsed insurance in the last quarter ending March 1929 had been \$100,000 and the average quarterly sales for the 2 years November 1937 through October 1938 had been \$400,000, the lapse ratio would be 25 percent.

Inasmuch as lapses are thus associated with newly written business, it seems reasonable to test the relationship of the lapse ratio to the rate at which new business was sold. Therefore, in Table 1, which we have just identified, we have taken the same 40 United States life-insurance companies included in the Life Insurance Sales Research Bureau's lapse survey and have determined the average rate of sales.

This average rate of sales was determined by taking the average amount of new ordinary insurance sold during 1935 and 1936 and expressing it as a percentage of the amount of ordinary insurance in force January 1, 1935.

An examination of the last two columns in table 1 shows that in general the largest companies surveyed, the A companies, designated by the Life Insurance Sales Research Bureau, have the lowest lapse ratios, while the medium-sized companies, the B companies, and the smallest companies, the C and D companies, have the higher lapse ratios.

This relationship, however, is not necessarily because of the differences in size of companies. The largest companies have the lowest relative sales rates, and therefore the amount of insurance exposed to lapse in these companies was relatively less than in the smaller companies, which were more successful in getting new business, as indicated by their higher sales rates.

The nature of the relationship that exists between the rate of sales and the lapse rate is more clearly revealed in Table 2. This table shows these same 40 United States life-insurance companies listed in the preceding table, arranged according to both sales rates and lapse rates. It shows that, regardless of size, there is a tendency for low-lapse rates to be associated with low-sales rates, and high-lapse rates to be associated with high-sales rates. The 13 companies, for example, that are listed in the first column with the lowest sales rates; namely, those companies that had sales rates between 5 and 10 percent, had the lowest lapse rates. The median lapse rate for that group is given in the last row on that table, 15 percent.

In each successively higher sales-rate class, the median lapse ratio is greater. You see, the correlation that exists between the rate at which new business is taken on the books of individual companies, and the rate of lapse experienced by those companies.

MR. GESELL. In other words, Dr. Davenport, these tables which have just been introduced demonstrate that there is a direct relationship between the amount of business written by a company and its lapse ratio?

DR. DAVENPORT. That is perfectly correct; direct positive relationship between the amount of business put on the books of the company and its lapse ratio. It doesn't mean there isn't variation in companies. Companies with a greater degree of control over their salesmen might effect the same rate of growth as another company and still have a lower lapse ratio, but in general this tendency persists.

MR. GESELL. Now, it would appear that the reason that the larger companies showed a lower lapse ratio on the sales-research figures was because their amount of new business written was not as great proportionately as the amount of new business written by some of the smaller companies?

DR. DAVENPORT. That is a correct statement.

MR. GESELL. I have no further questions.

MR. BLAISDELL. I would like to ask Dr. Davenport if classified by size A, B, and C, what does that mean?

DR. DAVENPORT. This was the classification arranged by the Life Insurance Sales Research Agency.

MR. GESELL. That was explained in Dr. Holcombe's testimony, was it not; the basis?

DR. DAVENPORT. In general, it is based on the amount of ordinary insurance in force; and the fourth column on that table would indicate, roughly, the break-down points.

Acting Chairman REECE. Thank you kindly, Doctor. Does this conclude your presentation?

MR. GESELL. It does; yes.

Acting Chairman REECE. When the committee recesses, it will recess to meet Tuesday at 10:30 a. m., unless otherwise announced by the chairman or the executive secretary; and in the meantime, the chairman or the executive secretary will announce the program which the committees will enter upon Tuesday morning.

MR. GESELL. May I just make it clear, Congressman Reece, that it will not be insurance at that time?

Acting Chairman REECE. It will not be insurance. I assume they had already concluded we had had enough of that. The committee will stand adjourned.

(Whereupon, at 3:50 p. m., an adjournment was taken until Tuesday, June 27, 1939, at 10:30 a. m.)

APPENDIX

EXHIBIT No. 641

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Group Life Insurance, United States Companies

[Includes Canadian Business]

Year	Number of Companies Writing Group Life	Insurance Written During Year ¹	Insurance In Force, End of Year
1919.....	28	\$432, 673, 000	\$1, 102, 466, 000
1920.....	31	440, 632, 000	1, 636, 725, 000
1921.....	35	127, 980, 000	1, 598, 743, 000
1922.....	38	298, 120, 000	1, 847, 139, 000
1923.....	45	548, 599, 000	2, 468, 936, 000
1924.....	60	656, 334, 000	3, 205, 228, 000
1925.....	80	1, 085, 435, 000	4, 312, 048, 000
1926.....	79	1, 183, 888, 000	5, 447, 824, 000
1927.....	84	1, 032, 980, 000	6, 479, 971, 000
1928.....	89	1, 572, 141, 000	8, 133, 527, 000
1929.....	89	1, 398, 182, 000	9, 139, 104, 000
1930.....	98	1, 405, 823, 000	9, 905, 526, 000
1931.....	101	981, 898, 000	9, 970, 425, 000
1932.....	102	763, 665, 000	9, 141, 352, 000
1933.....	100	464, 105, 800	8, 928, 499, 000
1934.....	96	595, 398, 000	9, 620, 179, 000
1935.....	100	779, 561, 000	10, 502, 921, 000
1936.....	97	702, 820, 000	11, 508, 910, 000
1937.....	98	917, 215, 000	12, 957, 266, 000

¹ Represents the approximate amount of business written under new contracts issued during the year. Does not include additional certificates issued under old contracts except to a negligible extent.

Source: Spectator Insurance Year Book (Life Insurance), Issues of 1920-1938, inclusive.

EXHIBIT No. 642

[From files of Metropolitan Life Insurance Co.]

THE TRAVELERS INSURANCE COMPANY

L. F. BUTLER, *President*

LIFE DEPARTMENT:

EDWARD B. MORRIS, *Actuary.*

CHARLES GAMERDINGER,

Assistant Actuary.

W. RULON WILLIAMSON,

Assistant Actuary.

HARTFORD, CONN., *November 26, 1917.*

MR. J. D. CRAIG,

Assistant Actuary,

Metropolitan Life Insurance Co., New York, N. Y.

DEAR MR. CRAIG: Thank you for your letter of the 23d instant regarding the question of limits. If we are able to get any satisfactory formula for limits, will let you know.

I might say in this connection, however, that I wrote a similar letter to the Actuaries of the principal companies writing group insurance as I did to you. The replies are all about the same, indicating a desire for uniformity—one letter suggesting that perhaps the Committee of Actuaries might informally discuss the matter when we get together in New York.

I am working on a schedule, by occupation, of rate classification to see if it is not possible to bring about some uniformity among the companies in this matter.

As I look at it, lack of uniformity is a decided drawback to the business as a whole. For instance, on a certain class of risk where there is competition and the Travelers quotes a "B" rate, the Aetna a "C" and the Metropolitan a "D" rate, the Travelers, all things being equal, gets the business. If, on the other hand, the Aetna quotes the "A" rates, the Metropolitan the "B" and the Travelers the "C," the chances are that the Aetna gets the business, so that the tendency due to lack of uniformity is towards the company quoting the lowest rate. If the companies were able to average up on other risks the situation might not be as serious but when the tendency is always the same the result is, of course, the writing of group business below the average quotations. In other words, it isn't necessarily one company but all companies that suffer through a lack of uniformity. Of course, I refer to companies granting nonparticipating or practically nonparticipating rates. Whether we can get all such companies to consider such a scale is another matter, but it is worth trying.

Sincerely yours,

E. B. MORRIS, *Actuary.*

EBM: L.

(Stamped:) Please return to actuary's office. File No. 102. A. G.—.

EXHIBIT No. 643

[From files of Travelers Insurance Co.]

[File of Group Life Intercompany]

From the Actuary, Life Department.
To the President and Vice President Way.

APRIL 12, 1919.

At the meeting of the Committee of Actuaries held in New York yesterday (the members representing companies interested in group insurance) the following action was taken:

(1) *Rates.*—The rates for standard groups suggested by the subcommittee appointed at an earlier meeting were considered acceptable as the minimum for the nonparticipating companies. The Metropolitan and the Prudential announced that they would use these rates increased approximately 5% for dividends. While Mr. Graham, of the Equitable, was not present, the Equitable's rates are at present so much higher that it is probably unnecessary for the Equitable to change their basic rates. (It is not expected that they will.)

This brings the rate situation to a satisfactory conclusion.

(2) *Extra premiums.*—All the nonparticipating companies and the Prudential and the Metropolitan have adopted, or will adopt, a special rating plan for extra premiums which was recommended by the committee some time ago. This plan has already been used by all companies except the Metropolitan, and the Metropolitan now falls in line. Here again the plan is not directly applicable to the Equitable, but Mr. Graham has promised that the Equitable will adopt a plan consistent with these results, meaning that the Equitable will also use extra premiums so as to be sure that the Equitable's rates will be sufficiently in excess of the nonparticipating rates.

(3) *Commissions.*—The companies represented were all agreeable to adopting the commission rates recommended by the subcommittee at the meeting held February 18, 1919, as follows:

First Suggested Schedule

Part of Premium	First Year	Renewals for 9 Years
\$5,000 and under.....	% 20	% 2
From \$5,000 to \$10,000.....	15	2
From \$10,000 to \$20,000.....	12½	2
From \$20,000 to \$30,000.....	10	2
From \$30,000 to \$50,000.....	5	2
Over \$50,000.....	2½	1

Second Suggested Schedule

Part of Premium	First Year	Renewals for 9 Years
\$30,000 and under.....	% 10	5% for 9 Years.
\$30,000 to \$50,000.....	5	2% for 9 Years.
Over \$50,000.....	2½	1% for 9 Years.

The nonparticipating companies adopting the first suggested schedule and the Metropolitan and Prudential schedules somewhat less than either of the suggested plans; it being understood, however, that these were the maximum commissions which would be quoted to any agent or broker, but that the companies operating on a general agency plan could make allowances (not commissions) to the general agents in excess thereof for the handling of the business, with the guarantee that the general agents would not pay commissions to agents or brokers in excess of the scale adopted. While, as it has been stated, the Equitable was not represented in this connection at the meeting, Mr. Graham had previously given assurance that the Equitable would modify their rates to conform to the adopted schedule. As a matter of fact, their present rates are very close to the first schedule suggested.

The understanding was that the various companies would send out the necessary notices to their field representatives in the very near future and that each company would send copies of such notices to the other companies interested. It was understood that the new rates as adopted by the various companies would apply to business issued after May 1, 1919, but that previous quotations of rates on older bases made prior to May 1, 1919, and where the rate had been finally quoted by the company at the home office of the company and when based upon full information as to inspection, schedule of employees, etc., could be continued until May 31, 1919, at which time all old quotations would automatically cease.

The Metropolitan expects to send out its notification probably this next week. With the Prudential the changes in rates will probably have to be officially adopted by their board, which will not meet until the second week in May, before an announcement is made.

While the Aetna was not represented at the meeting, that company had been fully informed of the various questions and had already declared their willingness to abide by the decisions reached.

It would seem, therefore, that the action which has been sought by the Hartford companies involving an understanding as to rates and maximum commissions is now possible and that competition on the basis of rates and underwriting, as well as commissions, will in the future be avoided by an agreement of the three Hartford companies, the Metropolitan, and the Prudential. The Equitable rates being so much higher, they have not caused controversy.

It is necessary, of course, that the directors [executives] now finally consider this question, although the agreement reached is practically in accordance with this company's previous consideration of the matter.

Assuming official endorsement, it will be necessary, therefore, that a statement to the field representatives as to the new basis of rates and also as to the new basis of commissions be drawn up for adoption. Vice President Way's letter of December 2, 1918, dealing with commissions could be modified in accordance with the attached suggestions.

(Signed) E. B. M.

EBM:L.

NOTE.—Crossed-out matter in linotype; new matter enclosed in brackets.

EXHIBIT No. 644

[From files of Travelers Insurance Co.]

MAY 9, 1922.

Mr. BROSMITH,
Vice President and General Counsel:

The following question has been raised at various times: Are the companies [writing group insurance] violating any antitrust law or in any way acting in an illegal manner by permitting their representatives to gather periodically in order to pool their knowledge as a basis for a unanimous recommendation of a necessary underwriting rule—or by pooling their experience as a basis for rates?

The recommendation of the informal committee of representatives can be adopted or rejected by each company, but as a general rule no recommendation is adopted by the committee unless the vote is unanimous. There is nothing binding upon any company to follow the underwriting rule, the recommended commission scales, or the rates which are recommended, but each company appreciates the advantages of cooperation to such an extent that it follows its own rules, which are generally based upon the recommendations of the committee.

Will you kindly let me have your opinion as to the legality of this procedure?

(Signed) B. D. F.,
Secretary.

BDF-C.

NOTE.—Penciled notation enclosed in brackets.

[Mr. Faye to note and return. B. D. F. 5-15]

THE TRAVELERS
Hartford, Connecticut May 11, 1922.

From Vice President and General Counsel.
To Secretary Flynn.
Subject:

At various times since 1911 I have had occasion as a member of the Legal Committees representing different insurance organizations to examine into the laws which prohibit trusts and combinations. My study of these laws and of the constructions given to them by the courts in various states brought to me the conviction that in most of the states these antitrust and anticompetition laws do not apply to the business of insurance. Of course, I realize that a combination or conspiracy on the part of a number of insurance companies to maintain premium rates would offend against common law without regard to any of these statutes. However, in my opinion, there is nothing in any of the statutes referred to or at common law which would make it unlawful for a number of companies engaged in any particular kind of insurance to associate for the purpose of developing experience, ascertaining adequate pure premiums, acquisition cost and rates, and ethical practices for the conduct of the business. Such association protects the interests of policyholders as well as the interests of the company, and it is through such association and by reason of collaboration with regard to experience, loss cost, acquisition cost, and all of the other factors that we have obtained the rate tables upon which the security of the policyholder as well as the integrity of the company has been established. Indeed, the laws in a number of the states now recognize not only the propriety but the necessity of such association, and this is evidenced particularly by the statutes which provide for the supervision and regulation of insurance rates and insurance rating organizations.

Altogether apart from any such statutory recognition, I can see no reason why any company should hesitate to take part in, and enjoy the advantages of, an association for the purpose of finding the right basis for rates and practices and where the companies are free to accept or reject the recommendations made.

(Signed) WM. BROSMITH.

NOTE.—Penciled notation enclosed in brackets.

EXHIBIT No. 645

[From files of Travelers Insurance Co.]

[Notation: W 3-30-25]
MARCH 28, 1925.

From: Secretary Flynn.
To: Vice President and General Counsel BroSmith.

Mr. J. D. Craig, of the Metropolitan, told me the other day that President Fiske, at a recent conference, told Kavanagh and Craig that he was still firmly of the opinion that representatives of the Metropolitan should not convene with other companies writing Group Insurance with the idea of adopting certain recommendations. Mr. Fiske had recently told the Metropolitan they could attend such conferences but he says now he thought they were Group Accident and Sickness conferences, not Group Life.

I asked Mr. Craig if this was simply an excuse for the Metropolitan to break over the traces and he said "No," that Mr. Fiske was sincere in his opinion that by getting together with other company representatives, even in an informal way, the Metropolitan was violating certain laws—and that Mr. Fiske based this

opinion mainly upon the advice of Mr. Lincoln. Craig said that Mr. Lincoln thinks that the informal get-together of the Group companies is in violation of certain statutes. I tried to find out what statutes he referred to. Craig did not know but did say that a year or so ago Lincoln drew to his attention a bill proposed in Arkansas, Section 2, Article 151, which prohibited such getting together of companies engaged in life-insurance business. Jim was not sure that such a bill was passed.

I suggested to Mr. Craig that you talk with Mr. Lincoln about the matter and he thought it would be advisable as Mr. Fiske would not change his mind until Mr. Lincoln changed his. I have spoken to Mr. Butler and he wanted me to suggest to you that you take the matter up with Lincoln to see what he had in mind.

Although the Metropolitan are supposed to conform to all of the rules even if they do not attend the conferences, it would be a much better working plan to have them on hand at the meetings and it would also be much better to clear up the question of legality of our meetings as some of the other companies may also become frightened if they feel that the Metropolitan really have some legal grounds upon which to stand.

(In ink) B. D. F.

BDF:K.

MARCH 30, 1925.

Vice President and General Counsel.

Secretary Flynn.

Re Anti-Trust Laws and

Haley Fiske's Position Re

Metropolitan.

In many of the states the laws which prohibit trusts and combinations in restraint of trade have been held to apply to insurance companies. In some of these states the words "insurance" or "insurance premiums" or "insurance premium rates" are specifically mentioned. In other states the language of these laws is not broad enough to affect the business of insurance. Again, in other states there are no laws against trusts or combinations in restraint of trade and the common law rules prevail.

Commencing back about 1910 or 1911 the Legal Committees of the several casualty bureaus made studies of all of the anti-trust laws and of decisions in all of the states bearing thereupon and prepared a schedule for the use of the casualty organizations, indicating in which states mandatory rates might be used and in which states only advisory rates; also, indicating the pains and penalties for violations of the statutes where they applied and the common law penalty was simply that of an injunction prohibiting the combination without any other penalty or damage.

All of the casualty organizations are operating under the opinions given by our Legal Committees and I venture to say that the fire insurance companies are operating under opinions of like tenor given by the counsel to their organizations.

We have never had any trouble concerning rates or agreements or combinations in any state of the Union except Kansas where some years ago an action was brought against a number of the casualty companies and thereafter dismissed. The fire companies have had trouble in some states which has been overcome in part by laws intended to regulate rates.

To the extent that these laws apply to insurance companies it would seem that they apply equally well to life insurance and accident insurance and to the organizations of companies which care for the interests of life and accident insurance companies so that a company official who is fearful of the results should avoid membership on the part of his company or of its officers in the Life Presidents, American Life Convention, Actuarial Societies and kindred organizations, which all have more or less to do with the establishment of the right premium rates for insurance and the maintenance of right practices.

With regard to employers' liability and compensation insurance, the question of a violation of any of these laws is practically a dead letter in all of the States in which other laws require that the rates charged for such insurances shall be rates which shall have been approved as to adequacy and reasonableness by the insurance supervising official or an Industrial Board or Commission. This is true as to certain States with regard to fire insurance as well.

To sum up, in many States there is no real risk at all. In some States there is a technical risk but this is no greater than all of the companies are taking every day in the year with regard to some requirement or other.

We expect to have the Life Counsel meet in Hartford the 13th and 14th of May and I shall probably have a chance to discuss this question with Lincoln during the sessions.

EXHIBIT No. 646

REVISED CODE ARIZONA—1928

"SEC. 3212. *Trust defined, declared void, prohibited, monopoly.*—A trust is a combination of capital, skill, or acts, by two or more persons for any of the following purposes: To create or carry out restrictions in trade or commerce or aids to commerce, or to carry out restrictions in the full and free pursuit of any business authorized or permitted by law; to increase or reduce the price of merchandise, products or commodities, or limit the production thereof, or to control the cost or rates of insurance; to prevent any competition in the manufacture, making, transportation, sale or purchase of merchandise, products or commodities, or to prevent competition in aids to commerce, to fix any standard or figure, for any article or commodity of merchandise, or product of commerce, intended for sale, use or consumption in this state, whereby its price to the public shall be, in any manner controlled or established; to make, enter into, execute or carry out, any obligation or agreement by which they shall bind or have to bind themselves not to sell, manufacture, dispose of or transport any article or commodity below a common standard figure, or by which they shall agree in any manner to keep the price of such article, commodity or transportation at a fixed or graded figure, or by which they shall in any manner establish or settle the price of any article or commodity or transportation between them or themselves and others, to preclude a free and unrestricted competition among themselves or others in transportation, sale or manufacture of any such article or commodity, or by which they shall agree to pool, combine or unite any interest they may have in connection with the manufacture, sale or transportation of any such article or commodity that its price may in any manner be affected; or to regulate the transportation of any product or commodity. Any such combination is against public policy, unlawful and void, and no person may form or be in any manner interested, either directly or indirectly, as principal, agent, representative, consignee or otherwise, in any trust as herein defined. The creation or maintenance of a monopoly within the state, or the attempt to create or maintain a monopoly within the state, is unlawful and prohibited." (§§ 1-2, Ch. 73, L. '12; 579-80; 585, in part, P. C. '13, cons. & rev.)

"SEC. 3213. *Violation by corporation forfeits charter; duty of officers.*—Any corporation organized under the laws of this state, or doing business in this state, violating any provision of this chapter, shall thereby forfeit its charter and franchise, and its corporate existence, or its right to do business in this state if a foreign corporation shall cease. The attorney general and the county attorneys, or either of them, shall institute civil and criminal actions to enforce the provisions of this chapter." (§§ 3-4, Ch. 73, L. '12; 581-2, P. C. '13, Cons. & rev.)

"SEC. 3214. *Violator may not do business in state.*—Every person or corporation, within or without this state, their officers, agents, representatives, or consignees, violating any provision of this chapter, is prohibited from doing any business within this state, and persons within this state shall not deal with, directly or indirectly, any such person." (§ 5, Ch. 73, L. '12; 583, P. C. '13, rev.)

"SEC. 3215. *Violations, penalty.*—Every person or corporation who directly or indirectly, violates any provision of the three preceding sections of this chapter shall be guilty of a misdemeanor and shall be punished by a fine of not less than one hundred nor more than one thousand dollars, and, if a natural person, imprisoned not less than thirty days nor more than six months, and for each and every day after a conviction hereunder that such violation shall continue, forfeit and pay the sum of one hundred dollars, which may be recovered in the name of the state." (§§ 6-7, Ch. 73, L. '12; 584-5, in part, P. C. '13, cons. & rev.)

GEORGIA CODE—1933

"56-219. (2466) *Arrangements by companies or agents preventing or lessening competition; revocation of license to do business.*—

"No insurance company authorized to do business in this State, or the agent thereof, shall make, maintain, or enter into any contract, agreement, pool, or other arrangement with any other insurance company or companies, licensed to do business in this State, or the agent or agents thereof, for the purpose of, or that may have the tendency or effect of, preventing or lessening competition in the business of insurance transacted in this State. When it shall be made to

appear to the Commissioner of Insurance that any company or agent has entered into any such contract, agreement, pool, or other arrangement, said Commissioner shall revoke the license issued to such company and the same shall not be reissued until the president or chief officer of such company shall file an affidavit with said Commissioner, stating that such contracts, agreements, pools, or other arrangements have been annulled and made void: Provided that nothing in this Chapter shall be so construed as to prevent any insurance company, legally authorized to transact business in this State, from separately surveying, inspecting, or examining the premises to be insured, by and with the consent of the owner, for the purpose of bringing about improvement in fire protection, so as to lessen the cost of insurance by reducing rates. (Acts 1890-1, p. 206.)"

"56-220. (2467) *Same: complaints by citizens: citation.*—

"Any citizen of this State whose rates of insurance have been increased, or who has been refused insurance at reasonable rates, may file a written complaint under oath, to the best of his knowledge and belief, with the Insurance Commissioner, charging any company or companies authorized to do business in this State with a violation of the preceding section, and thereupon it shall be the duty of said Insurance Commissioner to issue a citation, addressed to the company or companies against whom said complaint shall be made, requiring it or them to be and appear before said Insurance Commissioner at a time and place to be fixed by said Insurance Commissioner, not less than 20 nor more than 40 days from the date of the filing of the complaint, and show cause why their licenses should not be revoked as provided by the preceding section. Said citation shall be served not less than 10 days from the date of filing said complaint by the sheriffs or constables of the State in the same manner as provided by law for the service of process upon insurance companies. (Acts 1890-1, p. 206.)"

GENERAL STATUTES OF KANSAS, ANNOTATED—1935

"50-101. *Trusts defined and declared unlawful and void.*—

"A trust is a combination of capital, skill, or acts, by two or more persons, firms, corporations, or associations of persons, or either two or more of them, for either, any or all of the following purposes:

"*First.* To create or carry out restrictions in trade or commerce, or aids to commerce, or to carry out restrictions in the full and free pursuit of any business authorized or permitted by the laws of this State.

"*Second.* To increase or reduce the price of merchandise, produce or commodities, or to control the cost or rates of insurance.

"*Third.* To prevent competition in the manufacture, making, transportation, sale or purchase of merchandise, produce or commodities, or to prevent competition in aids to commerce.

"*Fourth.* To fix any standard or figure, whereby its price to the public shall be, in any manner, controlled or established, any article or commodity or merchandise, produce or commerce intended for sale, use or consumption in this state.

"*Fifth.* To make or enter into, or execute or carry out, any contract, obligation or agreement of any kind or description by which they shall bind or have to bind themselves not to sell, manufacture, dispose of or transport any article or commodity, or article of trade, use, merchandise, commerce or consumption below a common standard figure; or by which they shall agree in any manner to keep the price of such article, commodity or transportation at a fixed or graded figure; or by which they shall in any manner establish or settle the price of any article or commodity or transportation between them or themselves and others to preclude a free and unrestricted competition among themselves or others in transportation, sale or manufacture of any such article or commodity; or by which they shall agree to pool, combine or unite any interest they may have in connection with the manufacture, sale or transportation of any such article or commodity, that its price may in any manner be affected. And any such combinations are hereby declared to be against public policy, unlawful and void." (L. 1897, ch. 265, § 1; March 12, R. S. 1923, § 50-101.)

"50-102. *Denial of right to form or to be interested in any trust.*—

"All persons, companies, or corporations within this state are hereby denied the right to form or to be in any manner interested, either directly or indirectly as principal, agent, representative, consignee or otherwise, in any trust as defined in section one (50-101) of this act. (L. 1897, ch. 265, § 2.)

"50-103. *Forfeiture of corporate charter and franchise, stockholders, officers and agents subject to penalties.*—

"Any corporation holding a charter under the laws of the state of Kansas which shall violate any of the provisions of this act shall thereby forfeit its charter and

franchise, and its corporate existence shall cease and determine; and any stockholder, director, officer, agent, representative or consignee of any such corporations shall be subject to the penalties herein prescribed. (L. 1897, ch. 265, § 3.)

"50-104. Action for dissolution of corporation.—

"For a violation of any of the provisions of this act by any corporation, or any of its officers or agents mentioned herein, it shall be the duty of the attorney general of the state, or county attorney of any county in which said violation may occur, or either of them, upon his own motion, to institute an action in any court in this state having jurisdiction thereof for the forfeiture of the charter, rights and franchise of such corporations, and the dissolution of its corporate existence. (L. 1897, ch. 265, § 4.)

"50-105. Denial of right to do business; injunction or other proceedings: penalties and forfeitures.—

"Every person, company or corporation within or without this state, their officers, agents, representatives or consignees, violating any of the provisions of this act within this state, are hereby denied the right and are hereby prohibited from doing any business within this state, and all persons, companies and corporations, their officers, agents, representatives and consignees within this state, are hereby denied the right to handle the goods of or in any manner deal with, directly or indirectly, any such person, company or corporation, their officers, agents, representatives or consignees, and it shall be the duty of the attorney general and the county attorney of any county in the state where any violation of this act be committed, or either of them, to enforce the provisions of this section by injunction or other proceeding; and all persons, companies and corporations, their officers, agents, representatives or consignees, violating any of the provisions of this section, either directly or indirectly, or of abetting or aiding either directly or indirectly in any violation of any provision of this section, shall be deemed guilty of a misdemeanor, and shall be fined not less than one hundred dollars nor more than one thousand dollars, and confined in jail not less than thirty days nor more than six months, and shall forfeit not less than one hundred dollars for each and every day such violation may continue, which may be recovered in the name of the state of Kansas in any court of competent jurisdiction." (L. 1897, ch. 265, § 5.)

"50-106. Persons liable for violations; penalties and forfeitures; prosecutions.—

"Each and every person, company, or corporation, their officers, agents, representatives, or consignees, who either directly or indirectly violate any of the provisions of this act, shall be deemed guilty of a misdemeanor, and on conviction thereof shall be subject to a fine of not less than one hundred dollars nor more than one thousand dollars, and shall be imprisoned not less than thirty days nor more than six months, and in addition thereto, for each and every day thereafter that such violation shall be committed or continued, forfeit and pay the sum of one hundred dollars, which may be recovered in the name of the state of Kansas in any county where the offense is committed or where either of the offenders resides; and it shall be the duty of the attorney general of the state, or the county attorney of any county in the state, in which said violation shall occur, or either of them, to prosecute and enforce the provisions of this act." (L. 1897, ch. 265, § 6.)

"50-107. Contracts void and unenforceable.—Any contract or agreement in violation of any of the provisions of this act shall be absolutely void and not enforceable in any of the courts of this state; and when any civil action shall be commenced in any court of this state it shall be lawful to plead in the defense thereof that the plaintiff or any other person interested in the prosecution of the case is at the time or has within one year next preceding the date of the commencement of any such action been guilty, either as principal, agent, representative, or consignee, directly or indirectly, of a violation of any of the provisions of this act, or that the cause of action grows out of any business transaction in violation of this act." (L. 1897, ch. 265, § 7.)

"50-108. Recovery of damages and attorney fee by person injured.—

"That any person, firm, company, or corporation that may be damaged by any such agreement, trusts, or combination described in sections one (50-101) and two (50-102) of this act, may sue for and recover in any court of competent jurisdiction in this state, of any person, company, or corporation operating such trust or combination, such damages as they have sustained, together with a reasonable attorney fee." (L. 1897, ch. 265, § 8.)

"50-112. Trusts, combinations, and agreements in restraint of trade and free competition declared unlawful.—

"That all arrangements, contracts, agreements, trusts, or combinations between persons or corporations made with a view or which tend to prevent full and free

competition in the importation, transportation, or sale of articles imported into this state, or in the product, manufacture, or sale of articles of domestic growth or product of domestic raw material, or for the loan or use of money, or to fix attorneys' or doctors' fees, and all arrangements, contracts, agreements, trusts, or combinations between persons or corporations, designed or which tend to advance, reduce, or control the price or the cost to the producer or to the consumer of any such products or articles, or to control the cost or rate of insurance, or which tend to advance or control the rate of interest for the loan or use of money to the borrower, or any other services, are hereby declared to be against public policy, unlawful, and void." (L. 1889, ch. 257, §1.)

"50-114. *Penalty for entering into or attempting to carry out unlawful arrangement.*—

"That all persons entering into any such arrangement, contract, agreement, trust, or combination, or who shall after the passage of this act attempt to carry out or act under any such arrangement, contract, agreement, trust, or combination described in sections one (50-112) or two (50-113) of this act, either on his own account or as agent or attorney for another, or as an officer, agent, or stockholder of any corporation, or as a trustee, committee, or in any capacity whatever, shall be guilty of a misdemeanor, and on conviction thereof shall be subject to a fine of not less than one hundred dollars and not more than one thousand dollars, and to imprisonment not less than thirty days and not more than six months, or to both such fine and imprisonment, in the discretion of the court. (L. 1889, ch. 257 §3.)

"50-115. *Recovery of damages by persons injured by combination.*—

"That any person or corporation injured or damaged by any such arrangement, contract, agreement, trust, or combination, described in sections one (50-112) or two (50-113) of this act, may sue for and recover in any court of competent jurisdiction in this state, of any person or corporation, the full consideration or sum paid by him for any goods, wares, merchandise, and articles included in or advanced or controlled in price by said combination, or the full amount of money so borrowed." (L. 1889, ch. 257, §4.)

COMPILED STATUTES OF NEBRASKA—1929

"SEC. 59-101. *"Trust," Defined.*—A "trust" is a combination of capital, skill, or acts, by any person or persons, to fix the price of any article or commodity of trade, use, or merchandise, with the intent to prevent others from conducting or carrying on the same business or selling or trafficking in the same article, use, or merchandise, or a combination of capital, skill, or acts by two or more persons or two of them for either, any, or all of the following purposes: First. To create or carry out restrictions in trade; Second. To limit or reduce the production or increase or reduce the price of merchandise or commodities; Third. To prevent competition in insurance, either life, fire, accident, or any other kind, or in manufacture, making, constructing, transportation, sale, or purchase of merchandise, produce, or commodities; Fourth. To fix at any standard or figure, whereby its price to the public shall be in the manner controlled or established, upon any article or merchandise, produce, or manufacture of any kind intended for sale, use, or consumption in this state; to establish any pretended agency whereby the sale of any such article, commodity, merchandise, or product shall be covered up, concealed, or made to appear to be for the original vendor, for a like purpose or purposes, and to enable such original vendor, producer, or manufacturer to control the wholesale or retail price of any such article of merchandise, produce, or commodity after the title to the same shall have passed from such vendor or manufacturer; Fifth. To make or enter into, carry on, or carry out any contract, obligation, or agreement of any kind or description by which they shall bind or have heretofore bound themselves not to sell, dispose of, traffic in, or transport any article of merchandise or commodity or article of trade, product, use, merchandise, consumption, or commerce, below a common standard figure, card, or list price, or by which they shall agree in any manner to keep the price of such article, product, commodity, or transportation, at a fixed or graduated figure or price, or by which they shall in any manner establish or settle the price of any article of merchandise, commodity, or of insurance, fire, life, or accident, or transportation, between them or between themselves and others, or with the intent to preclude, or the tendency of which is to prevent or preclude, a free and unrestricted competition among themselves or others or the people generally in the production, sale, traffic, or transportation of any such article of merchandise, produce, or commodity or conducting a like business, or by which they shall agree to pool, combine, or unite any interest they may have in connection with the

sale, production, or transportation of any such article or merchandise, product, or commodity or the carrying on of any such business that its price might in any manner be affected thereby" (1897, p. 347; Ann. 12000; Comp. 6281; R. S. 1913, 4017; C. S. 1922, 3420).

C. S., Supp., Nebraska—1937

"SEC. 59-801. *Restraint of Trade or Commerce, Unlawful, Penalty.*—Except as to any contract executed pursuant to or under the authority of the provisions of the Fair Trade Act, every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade or commerce, within this state, is hereby declared to be illegal. Every person who shall make any such contract or engage in any such combination or conspiracy shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding Five Thousand Dollars (\$5,000.00), or by imprisonment not exceeding one year, or by both" (1905, p. 636; Ann. 12028; Comp. 6302a; R. S. 1913, 4045; C. S. 1922, 3448; C. S. 1929, 59-801; 1937, p. 481).

C. S., NEBRASKA—1929

"SEC. 59-802. *Monopolizing Trade or Commerce, Unlawful, Penalty.*—Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons to monopolize, any part of the trade or commerce within this state, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both" (1905, p. 636; Ann. 12029; Comp. 6302b; R. S. 1913, 4046; C. S. 1922, 3449).

"SEC. 59-813. *Same. When Corporation Officers Personally Liable for Violation.*—Every president, treasurer, general manager, agent, or other person usually exercising the powers of such officers of any corporation, joint-stock company, or other association, who has himself, in its behalf, violated, united to violate, or voted for or consented to the violation of any of the provisions of this article, shall thereafter be personally liable for all the debts and obligations of any such corporation, joint-stock company, or other association created while such person holds such office or agency, whether under the same or subsequent elections or appointments." (1905, p. 641; Ann. 12040; Comp. 6302m; R. S. 1913, 4057; C. S. 1922, 3460).

"SEC. 59-818. *Same, Damages, Threefold to Injured Parties.*—Any person who shall be injured in his business or property by any other person or persons by reason of anything forbidden or declared to be unlawful by this article may sue therefor in any court of record in this state, in the county in which the defendant or defendants reside or are found, without respect to the amount in controversy, and shall recover threefold the damages by him sustained and the costs of suit, including a reasonable attorney's fee" (1905 p. 644; Ann. 12045; Comp. 6302 r; R. S. 1913, 4062; C. S. 1922, 3465).

C. S., SUPPL., NEBRASKA—1937

"SEC. 44-321. *Combination Agreements Prohibited.*—If any insurance company authorized to transact business in this state, or any agent or representative thereof shall, either within or outside this state, directly or indirectly enter into any contract, understanding, or combination with any other insurance company, or agent or representative thereof, or with any association of such companies or agents, for the purpose of controlling the rates to be charged for insuring any risk or class or classes of risks in this state, or for the purpose of, or that may have the tendency or effect of, preventing or lessening lawful competition in the transaction of the business of insurance in this state, the Department of Insurance shall forthwith revoke its license, and those of its agents, and no renewal of the license shall be granted until after the expiration of one year from the date of final revocation" (R. S. 1913, 3186; 1919, p. 598; C. S. 1922, 7786; C. S. 1929, 44-321; 1935, p. 329).

OREGON CODE ANNOTATED—1930

"46-140. *Combinations and agreements prohibited.*—

"It shall be unlawful for any insurance company authorized to transact business in this state, or any manager or any agent or representative thereof, to, either within or outside of this state, directly or indirectly, enter into any contract, understanding, or combination with any other insurance company, or any mana-

ger, or any agent or representative thereof, or to jointly or severally do any act or engage in any practice or practices for the purpose of controlling the rate to be charged, or commissions or other compensations to be paid, for insuring any risk or class or classes of risks, in this state, or for the purpose of discriminating against or differentiating from any company, manager, or agent, by reason of its or his plan or method of transacting business or its or his affiliation or nonaffiliation with any board or association of insurance companies, managers, agents, or representatives, or for any purpose detrimental to free competition in the business or injurious to the insuring public. Whenever the commissioner shall have knowledge of any violation of this section, he shall forthwith order such offending company, manager, agent, or representative to immediately discontinue such practice or show cause to the satisfaction of the commissioner why such order should not be complied with. Within thirty days from the receipt of such order, and upon a failure to comply with such order, the commissioner shall forthwith revoke the license of such offending company or agent, and no renewal of the license so revoked shall be granted within three years from the date of the revocation" (L. 1917, ch. 203, §18, p. 312; O. L. §6361).

CODE OF LAWS OF SOUTH CAROLINA—1932 .

"SEC. 6620. Trusts and Combinations Declared Against Public Policy.—

"All arrangements, contracts, agreements, trusts, or combinations between two or more persons as individuals, firms, or corporations, made with a view to lessen, or which tends to lessen, full and free competition in the importation or sale of articles imported into this State, or in the manufacture or sale of articles of domestic growth or of domestic raw material, and all arrangements, contracts, agreements, trusts, or combinations between persons or corporations designed or which tend to advance, reduce, or control the price or the cost to the producer or to the consumer of any such product or article, and all arrangements, contracts, trusts, syndicates, associations, or combinations between two or more persons as individuals, firms, corporations, syndicates, or associations, that may lessen or affect in any manner the full and free competition in any tariff, rates, tolls, premium, or prices in any branch of trade, business, or commerce, are hereby declared to be against public policy, unlawful, and void." (Civ. C. '22, §3530; Civ. C. '12, §2437; Civ. C. '02, §2845; 1897, XXII, 434).

"SEC. 6621. Charter of Corporation Violating to be Forfeited—How.—

"Whenever complaint is made upon sufficient affidavit or affidavits showing a *prima facie* case of violation of the provisions of section 6620 by any corporation, domestic or foreign, it shall be the duty of the Attorney General to begin an action against such domestic corporation to forfeit its charter; and for the purpose of such forfeiture he shall apply to any court of competent jurisdiction for an order restraining such offending corporation, and in cases where in his discretion it is necessary, for the immediate appointment of a receiver for such offending corporation where such forfeiture affects a creditor or creditors of such offending company; and in case such violation shall be established the court shall adjudge the charter of such corporation to be forfeited, and such corporation shall be dissolved, and its charter shall cease and determine; and in the case of such showing as to a foreign corporation an action shall be begun by the Attorney General in said court against such corporation to determine the truth of such charge; and in case such charge shall be considered established, the effect of the judgment of the court shall be to deny to such corporation the recognition of its corporate existence in any court of law or equity in this State. But nothing in this section shall be construed to affect any right of action then existing against such corporation" (Civ. C. '22, §3531; Civ. C. '12, §2438; Civ. C. '02, §2846; 1897, XXII, 434; 1902, XXIII, 569).

"SEC. 6622. Injured Party May Recover Damages—Witnesses.—

"Any person or persons or corporations that may be injured or damaged by any such arrangement, contract, agreement, trust, or combination described in section 6620 may sue for and recover, in any court of competent jurisdiction in this State, of any person, persons, or corporation operating such trust or combination, the full consideration or sum paid by him or them for any goods, wares, merchandise, or articles the sale of which is controlled by such combination or trust.

"Any and all persons may be compelled to testify in any action or prosecution under §§6620 to 6622, inclusive: *Provided*, That such testimony shall not be used in any other action or prosecution against such witness or witnesses, and such witness or witnesses shall forever be exempt from any prosecution for the act or

acts concerning which he or they testify" (Civ. C. '22, §3532; Civ. C. '12, §2439; Civ. C. '02, §2817; 1897, XXII, 434).

"SEC. 6624. *Conspiracies in Restraint of Trade Prohibited.*—

"Any corporation organized under the laws of this or any other State or country, and transacting or conducting any kind of business in this State, or any partnership or individual, or other association of persons whatsoever, who shall create, enter into, become a member of, or a party to any pool, trust, agreement, combination, confederation, or understanding with any other corporation, partnership, individual, or any other person or association of persons, to regulate or fix the price of any article of manufacture, mechanism, merchandise, commodity, convenience, repair, any product of mining, or any article or thing whatsoever, or to maintain said price when so regulated or fixed, or shall enter into, become a member of, or a party to any pool, agreement, combination, contract, association, or confederation to fix or limit the amount or quantity of any article of manufacture, mechanism, merchandise, commodity, convenience, repair, any product of mining, or any article or thing whatsoever, or the price or premium to be paid for insuring property against loss or damage by fire, lightning, storm, cyclone, tornado, or any other kind of policy issued by any corporation, partnership, individual, or association of persons aforesaid, shall be deemed and adjudged guilty of a conspiracy to defraud, and to be subject to the penalties as provided by sections 6624, 6625, and 6634 to 6639" (Civ. C. '22, §3534; Civ. C. '12, §2441; 1902, XXIII, 1057).

"SEC. 6628. *Validity of Trust Agreements.*—All contracts or agreements made in violation of any of the provisions of sections 6626 to 6633 shall be void" (Civ. C. '22, §3538; Civ. C. '12, §2445; 1909, XXVI, 19).

"SEC. 6631. *Charter of Guilty Corporation to be Revoked.*—

"If any corporation, foreign or domestic, authorized to do business in this State, is found guilty of unfair discrimination, within the terms of sections 6626 to 6633, it shall be the duty of the Secretary of State to immediately revoke the permit of such corporation to do business in this State" (Civ. C. '22, §3541; Civ. C. '12, §2448; 1909, XXVI, 19).

"SEC. 6635. *Penalty for Violation.*—

"Any person, partnership, firm, or association, or any representative or agent thereof, or any corporation or company, or any officer, representative, or agent thereof, violating any of the provisions of sections 6624, 6625, and 6634 to 6639, shall forfeit not less than two hundred dollars, nor more than five thousand dollars, for every such offense, and each day such person, corporation, partnership, or association shall continue to do so shall be a separate offense, the penalties in such cases to be recovered by an action in the name of the State, at the relation of the Attorney General or the solicitor of the judicial circuit within which the offense was committed; the moneys thus collected to go into the State Treasury, and to become a part of the general fund except as hereinafter provided. The amount of the forfeit to be fixed by the judge before whom the case is tried in each case, within the aforesaid limits; the collection of which penalty shall be enforced as the collection of fines against defendants upon conviction of a misdemeanor" (Civ. C. '22, §3545; Civ. C. '12, §2452; 1902, XXIII, 1057).

"SEC. 6637. *Forfeiture of Corporate Franchise or Right to Do Business.*—

"Any corporation created or organized by or under the laws of this State which shall violate any of the provisions of the sections 6624, 6625, and 6634 to 6639 shall hereby forfeit its corporate rights and franchises; and its corporate existence shall, upon the proper proof being made thereof in any court of competent jurisdiction in the State, be by the court declared forfeited, void, and of none effect, and shall thereupon cease and determine; and any corporation created, organized by or under the law of any other State or country which shall violate any of the provisions of sections 6624, 6625, and 6634 to 6639, shall thereby forfeit its right and privilege thereafter to do any business in this State; and upon proper proof being made thereof in any court of competent jurisdiction in this State, its rights and privileges to do business in this State shall be declared forfeited; and in all proceedings to have such forfeiture declared, proof that any person who has been acting as agent of such foreign corporation in transacting its business in this State has been, while acting as such agent and in the name, behalf, or interest of such foreign corporation, violating any provisions of sections 6624, 6625, and 6634 to 6639, shall be received as *prima facie* proof of the act of the corporation itself; and it shall be the duty of the clerk of said court to certify the decree thereof to the Secretary of State" (Civ. C. '22, §3547; Civ. C. '12, §2454; 1902, XXIII, 1057).

VERNON'S ANNOTATED TEXAS STATUTES (CIVIL)—VOL. 20

"ART. 7429. (7799) *Acts illegal*.—Any and all trusts, monopolies, and conspiracies in restraint of trade, as herein defined, are prohibited and declared to be illegal" (Acts 1903, p. 119).

"ART. 7430. (7800) *Charters forfeited*.—The charter of any corporation chartered under the laws of this State, adjudged guilty of violating any provision of this subdivision, may be forfeited at the request of the Attorney General, if, in the judgment of the court before whom the litigation is pending, the public interest requires it, provided the forfeiture of the charter shall be in addition to all other penalties prescribed by law" (Acts 1903, p. 119; Acts 1923, p. 12).

"ART. 7432. (7802) *Successors are prohibited from doing business*.—When a corporation organized under the laws of this State shall have been convicted of a violation of any provision of this subdivision and its charter and franchise has been forfeited, no other corporation to which the defaulting corporation may have transferred its properties and business, or which has assumed the payment of its obligations, shall be permitted to incorporate or do business in Texas" (Acts 1903, p. 119).

"ART. 7433. (7803) *Foreign corporations*.—When any foreign corporation is adjudged guilty of violating any provision of this subdivision or any antitrust law of this State, the Attorney General may bring suit in the district court of Travis County for the purpose of enjoining and forever prohibiting such corporation from doing business in this State, and if in the judgment of the court the public interest requires it, the injunction shall be granted, provided the denial of the right to do business in this State to any foreign corporation adjudged guilty of violating the antitrust laws shall be in addition to all other penalties prescribed by law" (Acts 1903, p. 119; Acts 1923, p. 12).

"ART. 7436. (7806) *Penalties; venue; fees*.—Each firm, person, corporation, or association of persons who shall in any manner violate any provision of this subdivision shall, for each day that such violation shall be committed or continued, forfeit and pay a sum of not less than fifty nor more than fifteen hundred dollars, which may be recovered in the name of the State of Texas, in the district court of any county in the State of Texas, and venue is hereby given to such district courts. * * *" (Acts 1903, p. 119; Acts 1909, p. 281).

"ART. 7437. (7807) *All agreements in violation of, void*.—Any contract or agreement in violation of any provision of this subdivision shall be absolutely void and not enforceable either in law or equity" (Acts 1903, p. 119).

VERNON'S ANNOTATED CRIMINAL STATUTES OF THE STATE OF TEXAS (PENAL CODE)—VOL. 3

"ART. 1632. (1454) *Defining trusts*.—A 'trust' is a combination of capital, skill, or acts by two or more persons, firms, corporations, or associations of persons, or either two or more of them, for any or all of the following purposes:

"1. To create, or which may tend to create or carry out, restrictions in trade or commerce or aids to commerce, or in the preparation of any product for market or transportation, or to create or carry out restrictions in the free pursuit of any business authorized or permitted by the laws of this State.

"2. To fix, maintain, increase, or reduce the price of merchandise, produce, or commodities, or the costs of insurance, or of the preparation of any product for market or transportation.

"3. To prevent or lessen competition in the manufacture, making, transportation, sale, or purchase of merchandise, produce, or commodities or the business of insurance, or to prevent or lessen competition in aids to commerce, or in the preparation of any product for market or transportation.

"4. To fix or maintain any standard or figure whereby the price of any article or commodity of merchandise, produce, or commerce, or the cost of transportation, or insurance, or the preparation of any product for market or transportation, shall be in any manner affected, controlled, or established.

"5. To make, enter into, maintain, execute, or carry out any contract, obligation, or agreement by which the parties thereto bind, or have bound, themselves not to sell, dispose of, transport, or to prepare for market or transportation any article, or commodity, or to make any contract of insurance at a price below a common standard or figure, or by which they shall agree, in any manner, to keep the price

of such article or commodity, or charge for transportation or insurance, or the cost of the preparation of any product for market or transportation, at a fixed or graded figure, or by which they shall, in any manner, affect or maintain the price of any commodity or article, or the cost of transportation or insurance, or the cost of the preparation of any product for market or transportation, between them or themselves and others, to preclude a free and unrestricted competition among themselves or others in the sale or transportation of any such article or commodity or business of transportation or insurance, or the preparation of any product for market or transportation, or by which they shall agree to pool, combine, or unite any interest they may have in connection with the sale or purchase of any article or commodity, or charge for transportation or insurance, or charge for the preparation of any product for market or transportation, whereby its price or such charge might be in any manner affected.

"6. To regulate, fix, or limit the output of any article or commodity which may be manufactured, mined, produced, or sold, or the amount of insurance which may be undertaken, or the amount of work that may be done in the preparation of any product for market or transportation.

"7. To abstain from engaging in or continuing business, or from the purchase or sale of merchandise, produce, or commodities partially or entirely within this State, or any portion thereof" (Acts 1903, p. 119).

"ART. 1635. (1466) *Punishment*.—Whoever violates any provision of this chapter shall be confined in the penitentiary not less than two nor more than ten years" (Acts 1907, p. 194).

"ART. 1637. (1470) *Agreement to form trust, monopoly, etc.*—If any person shall enter into an agreement or understanding of any character to form a trust, or to form a monopoly, or to form a conspiracy in restraint of trade, as these offenses are defined in this chapter, or shall form a trust, monopoly, or conspiracy in restraint of trade, or shall be a party to the formation of a trust or monopoly or conspiracy in restraint of trade, or shall become a party to a trust or monopoly or conspiracy in restraint of trade or shall do any act in furtherance of or aid to such trust or monopoly or conspiracy in restraint of trade, he shall be confined in the penitentiary not less than two nor more than ten years" (Acts 1907, p. 457).

"ART. 1638. (1471) *Operating in violation of this law*.—If any person shall, as a member, agent, employee, officer, director, or stockholder of any business, firm, corporation, or association of persons, form, in violation of the provisions of this chapter, or shall operate, in violation of such provisions, any such business, firm, corporation, or association formed in violation of this chapter, or shall make any sale, or purchase, or any other contract, or do business for such business, firm, corporation, or association, or shall do any other act which has the effect of violating or aiding in the violation of any provision of this chapter, or shall, with the intent or purpose of driving out competition or for the purpose of financially injuring competitors, sell within this State at less than cost of manufacture or production, or sell in such a way or give away within this State, products for the purpose of driving out competition or financially injuring competitors engaged in a similar business, or give secret rebates on such purchase for the purpose of the aforesaid, he shall be confined in the penitentiary not less than two nor more than ten years" (Acts 1907, p. 457).

"ART. 1639. (1472) *Persons outside State liable*.—If any person shall, outside of this State, do anything which, if done within this State, would constitute the formation of a trust or monopoly or conspiracy in the restraint of trade, as defined in this chapter, and shall cause or permit the trust or monopoly so formed by him to do business within this State, or shall cause or permit such trust, monopoly, or conspiracy in restraint of trade to have any operation or effect within this State, or if such trust, monopoly, or conspiracy in restraint of trade, having been formed outside of said State, any person shall give effect to such trust, monopoly, or conspiracy in this State, or he shall do anything to help or aid it doing business in this State, or otherwise violate the antitrust laws of this State, or if any person shall buy or sell or otherwise make contracts for or aid any business, firm, corporation, or association of persons, formed or operated in violation of any provision of this chapter, or so formed or operated as would be in violation of the laws of this State, if it had been formed within this State, shall be confined in the penitentiary not less than two nor more than ten years" (Acts 1907, p. 457).

"ART. 1640. (1473) *Forming trusts, etc.*—If any person, employee, agent, stockholder, or officer of any person, firm, association of persons, or corporation, now doing business in this State, have formed a trust, or monopoly, as defined in this chapter, or have formed a conspiracy in restraint of trade, as defined in this chapter, or shall do or perform any act of any character to carry out such trust, monopoly, or conspiracy in restraint of trade, such person, employee, agent, stockholder,

or officer shall be confined in the penitentiary not less than two nor more than ten years" (Acts 1907, p. 458).

Annotation: *Polomac Fire Insurance Company vs. State*, 18 Southwestern (2nd) 929 (1929). There was an agreement by two fire insurance companies to limit the commissions to agents to 20 percent and to refuse to do business with an agent who accepted more than 20 percent from any other company. This was *held* to be a violation of subsections 2, 3, 4, and 5 of Article 7426, which is identical with Article 1632 above. Such an agreement tends to fix rates.

Griffin vs. Palatine Insurance Company et al., 238 Southwestern 637 (1922). Because Griffin refused to abide by the decision of an adjuster as to the amount of his loss, the defendants agreed not to write any of his insurance. It was *held* that this violates Sections 3 and 5 of Article 7426 mentioned above, in that it lessens competition.

REMINGTON'S REVISED STATUTES OF WASHINGTON

"SEC. 7076. Combinations and Agreements prohibited.—

"It shall be unlawful for any insurance company authorized to transact business in this state, or any manager or any agent or representative thereof, or solicitor or broker to, either within or outside of this state, directly or indirectly, enter into any contract, understanding, or combination with any other insurance company, or any manager, or any agent or representative thereof, or solicitor or broker, or to jointly or severally do any act or engage in any practices for the purpose of controlling the rates to be charged for insuring any risk, or class or classes of risks, in this state, or for the purpose of discriminating against or differentiating from any company, manager, agent, solicitor, or broker by reason of its or his plan or method of transacting business or its or his affiliation or nonaffiliation with any board or association of insurance companies, managers, agents, representatives, solicitors, or brokers, or for any purpose detrimental to free competition in the business or injurious to the insuring public. Whenever the commissioner shall have knowledge of any violation of this section, he shall forthwith order such offending company, manager, agent, representative, solicitor, or broker to immediately discontinue such practice or show cause to the satisfaction of the commissioner why such order should not be complied with. Within thirty days from the receipt of such order, and upon a failure to comply with such order, the commissioner shall forthwith revoke the license of such offending company, agent, solicitor, or broker, and no renewal of the license so revoked shall be granted within three years from the date of the revocation" (L. 15, p. 278, §1).

EXHIBIT No. 647

[From files of Travelers Insurance Co.]

[Notation: See "Aetna" file.]

MARCH 26, 1924.

[In pencil: Wm. B.]

From: Secretary Flynn.

To: President Butler.

You may be interested in reading through the attached minutes of the last intercompany Group meeting and the intercompany rules amended up to and including that meeting. (If you would like a copy of the intercompany rules for your files, I shall be glad to furnish you one.)

During the two weeks preceding the meeting, we had heard from the field of the offer of the Aetna in several cases to supply clerical assistance. The offer was generally made in the form of a monthly allowance for clerical hire to handle the detail work. This violation of the spirit of the intercompany understanding by the Aetna was the first item on the agenda. After a hot discussion of an hour or two, the first two votes outlined in the minutes were adopted, unanimously. In the course of the discussion a large number of cases where Mr. Cammack had strained the rules for his company's advantage were brought out. A couple of days after the meeting Mr. Cammack reported to me that the Aetna had withdrawn as of March 17 all outstanding quotations for clerical assistance.

He also stated that in the case of the Empire Gas and Electric Company, which Manager Campbell said had been given to the Aetna because they had offered an allowance of clerical assistance, that no such allowance had been offered by the Aetna nor would be given. This matter will be threshed out more thoroughly with Manager Campbell in the next few days.

I am referring to the above matter as an important possible cause for trouble in the conference which was successfully cleared up and matters put in good shape in short order. It illustrates the willingness of the companies to play together on the basis of an honest interpretation of the rules. The meeting was unfortunate in that the discussion became somewhat heated and personal and undoubtedly scandalized the John Hancock representatives who were present. Clearly Mr. Cammack was being badly chastised and it was apparent to all that upon the basis of his improper practices during the past six or twelve months he deserved the rough handling that he was getting. The measures which were necessary to whip the matter in shape left some of the weaker company members, such as the Connecticut General and the Missouri State, at the point where they were hinting at getting out of the conference in order to enjoy cut-rate opportunities.

I am reciting all of the above with the idea of putting you in closer touch with the intercompany situation in Group Insurance, which, judging from the pressure which all companies are putting on this year, is going to become more and more important and more and more difficult to keep lined up.

BDF:N

(Signed) B. D. F.

EXHIBIT No. 648

[From files of Travelers Insurance Co.]

[Notations: See B. D. Flynn.—Noted. B. D. F.—A. W. 3-30-26. D.]

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

HOME OFFICE, NEWARK, NEW JERSEY

ALFRED HURRELL, Vice President and General Counsel

FEBRUARY 24, 1926.

WILLIAM BROSMITH, ESQ.,

*Vice President and General Counsel, The Travelers Insurance Company,
Hartford, Conn.*

MY DEAR BRO: The proposed constitution for the Group Life Association has been turned over to me by Mr. Little. I need hardly say that I appreciate the care and skill that you have displayed in drafting this constitution, and I cannot think of anything that has been overlooked in its preparation.

At the same time, I have been wondering whether a written constitution does not contain seeds of difficulty for the future. As we all know, the old informal Group Committee was, on the whole, unusually successful in avoiding improper methods of competition, particularly in avoiding the cutting of premium rates. The fact that first one and then another company chose to withdraw seems to have been the real cause of the subsequent difficulties. Where there is an Association with the rather rigid rules prescribed in the tentative constitution, it seems to me there would be strong temptation for any dissatisfied company to withdraw as the only possible way in which it could secure independent action even on a quite minor point, whereas, as you know, under the more flexible system of the informal Committee, certain differences in practice did persist while the Committee was still able to secure a general agreement to follow its recommendations.

There does seem to be on the part of some of the Insurance Departments rather a decided tendency to look with disfavor on any positive agreement among the companies as to what shall and shall not be done in their dealings with the insuring public. To an Insurance Commissioner looking for matter for criticism I am afraid the formal constitution of the proposed Group Life Association would be found only too satisfactory as evidence that the companies were combining to prevent such freedom of competition as would result in the maximum service being offered for the premiums collected.

I am frank to admit that perhaps I am unduly timid in this connection, but I do feel that we secured a very satisfactory measure of success with the old informal Group Committee, and having now apparently got rid of the problem of premium rates, my own feeling is strongly in favor of avoiding anything that would supply ammunition to an unfair critic.

With best wishes, I am

Very truly yours,

ALFRED HURRELL,
Vice President and General Counsel.

EXHIBIT No. 649

[From files of Travelers Insurance Co.]

MARCH 12, 1926.

Mr. H. S. BEERS,

*Associate Actuary, Aetna Life Insurance Company,
Hartford, Connecticut.*

DEAR MR. BEERS: Mr. BroSmith has redrafted the rules adopted by the Group Association at its meeting held March 5, 1926, as per copy attached.

As I told you the other day, his feeling was that the Association should be careful in putting out its rules or its minutes of meetings to steer clear of any indication of combination in restraint of trade.

My suggestion would be that you send out new set of rules in accordance with Mr. BroSmith's draft, to be used in place of the earlier set.

Yours very truly,

_____, *Secretary.*

BDF:K.

EXHIBIT No. 650

NEW YORK INSURANCE LAW

ARTICLE 2, SECTION 101-A

"(3) No domestic life-insurance company shall issue any policy of group life insurance, the premium for which shall be less than the net premium based on the American men ultimate table of mortality, with interest at three and one-half per centum per annum, plus a loading, the formula for the computation of which shall be determined by the superintendent of insurance. A foreign life-insurance company which shall not conduct its business in accordance with this requirement shall not be permitted to do business in this state. Any such policy may, however, anything in this chapter to the contrary notwithstanding, provide for a readjustment of the rate based on experience at the end of the first or any subsequent year of insurance, which readjustment may be made retroactive for such policy year only. Any dividends hereafter declared or rate reductions hereafter made or continued for the first or any subsequent year of insurance under any policy of the kind defined in subsection one of this section heretofore or hereafter issued may be applied to reduce the employer's part of the cost, except that the excess, if any, of the employees' aggregate contribution under the policy over the net cost of the insurance shall be applied by the employer for the sole benefit of the employee."

Laws 1926, ch. 92, effective March 12, 1926; as amended.

Laws 1936, ch. 712, effective May 21, 1936.

EXHIBIT No. 651

[From files of Aetna Life Insurance Co.]

CONSTITUTION

ARTICLE I

NAME

This Association shall be called the Group Association.

ARTICLE II

OBJECTS

The objects of this Association shall be—

- (1) To promote the welfare of holders of Group policies.
- (2) To advance the interests of Group Insurance.
- (3) To promote economy and reduce expense in the matter of general administration by an interchange of views on practice among insurance companies which issue contracts of Group Insurance.
- (4) To represent the members of the Association in matters pertaining to, or which may affect, Group Insurance before the Insurance Departments and other public and quasi-public official bodies.

(5) To collect and analyze the Group experience of the members of the Association, but nothing in this constitution, or in any rule adopted subordinate thereto, shall be held to authorize the making or promulgation of premium rates.

ARTICLE III

MEMBERSHIP

SECTION 1. The Association shall consist of—

(a) The insurance companies that shall subscribe to this constitution at its adoption.

(b) Such other insurance companies in the United States and Canada as may hereafter apply for and be admitted to membership by unanimous resolution at any meeting after notice.

SECTION 2. Each member shall have the right to designate any officer of the Company as its representative to attend and vote at meetings of the Association.

SECTION 3. Membership of a company in this Association shall be subject to the right of the Association to terminate such membership at any time by a vote of three-fourths of the members present and voting at the meeting at which such action shall be taken.

SECTION 4. A member may resign from the Association upon sixty days' written notice filed with the Secretary.

SECTION 5. Members which issue Accident and/or Sickness Insurance on groups of lives shall constitute the Accident and Sickness Section of the Association.

SECTION 6. Members which issue annuity contracts covering groups of lives shall constitute the Group Annuity Section of the Association.

ARTICLE IV

SECTION 1. The officers of the Association shall be a Chairman and a Secretary. These officers shall be elected by ballot at each regular annual meeting of the Association, but the officers who shall be so elected at the meeting at which this constitution is adopted shall hold office until the next regular annual meeting following and until their successors shall be elected and shall have qualified. If either of the foregoing offices shall become vacant for any cause during any year, a special meeting of the Association shall be called for the purpose of filling such vacancy. A vote of three-fourths of all of the members present and voting shall be necessary in the election of officers.

SECTION 2. The Chairman shall preside at meetings. The Secretary shall keep a record of all proceedings of the Association and shall notify the members of the Association of all meetings and shall perform such other duties as may, from time to time, be assigned to him by the Chairman.

SECTION 3. Members constituting the Accident and Sickness Section may elect a separate chairman to preside at meetings of the section. The Secretary of the Association shall keep the records and perform the duties pertaining to the Accident and Sickness Section in the same manner as is provided for the Association under Section 2 of this article.

SECTION 4. Members constituting the Group Annuity Section may elect a separate Chairman to preside at meetings of the section. The Secretary of the Association shall keep the records and perform the duties relating to the Group Annuity Section in the same manner as is provided for the Association under Section 2 of this Article.

SECTION 5. No representative or representatives of any one member shall hold the chairmanship of the Association or of any one of its sections for more than two successive terms.

SECTION 6. At the September meeting of the Association in each year, a Nominating Committee of three members shall be elected by a majority vote of the members present and voting. It shall be the duty of the Nominating Committee to submit to all the members by mail not less than thirty days before the annual meeting of the Association the names of those recommended by it as nominees for the respective offices to be filled at the annual meeting of the Association. Nothing in this Section, however, shall prevent any member from presenting such other nominations as it may wish to submit.

(As amended February 1939.)

ARTICLE V

SECTION 1. The annual meeting of the Association shall be held in New York City on the third Tuesday in November of each year. Regular meetings shall be held on the third Tuesday in February and September in each year, and on the day preceding the Spring Meeting of the Actuarial Society, in such places as may be designated in the call for the meeting. Special meetings of the Association may be called at any time by the Chairman, or in case of his inability to act, by the Secretary, and shall be so called upon written request of three members.

Two weeks' written notice shall be given by the Secretary for annual and other regular meetings and one week's written notice for special meetings.

SECTION 2. Five members shall form a quorum at any meeting.

SECTION 3. An agenda of matters to be taken up at any meeting of the Association shall be sent to each member with the notice of the meeting.

SECTION 4. The Association may recommend rules for the conduct of the business. If unanimously approved by all members present at a meeting, such recommendation shall be submitted in writing by the Secretary to all members, who must record with the Secretary their votes in writing. Unanimous approval by all members who record their votes within ten days from the date of notification by the Secretary of a recommendation shall make such recommendation binding until changed by the vote of the Association, except as provided in Section 5 following.

SECTION 5. No member shall change or present any plan for future offer involving a change in a practice required by any rule adopted, except after sixty days' notice has been served upon the Secretary of the Association, who shall notify all members immediately.

SECTION 6. No member which does not issue Life Insurance upon groups of lives shall have the right to vote in relation to any matter pertaining solely to Group Life Insurance. No member which does not issue Accident and Sickness Insurances upon groups of lives shall have the right to vote in relation to any matter pertaining solely to Group Insurance against Accident and Sickness. No member which does not issue Annuity Contracts covering groups of lives shall have the right to vote in relation to any matter pertaining solely to Group Annuities.

ARTICLE VI

This constitution may be amended at any regular or special meeting of the Association by the unanimous vote of all the members present, provided that written notice with a copy of the proposed amendment shall have been given to the members not less than two weeks in advance of the meeting.

ARTICLE VII

This constitution was adopted at a meeting held at the Hotel Pennsylvania in the City of New York on the Fifth day of March 1926, by the vote of the companies whose names are subscribed hereto.

(As amended February 1939.)

EXHIBIT No. 652

[Prepared by E. E. Cammack, Vice President, Aetna Life Insurance Co.]

Officers elected at annual meetings of group association

Meeting	Chairman	Chairman, Accident and Sickness Section	Chairman, Group Annuity Section	Secretary
March 1926	W. J. Graham			E. E. Cammack.
November 1926	W. J. Graham	W. I. King		E. E. Cammack.
November 1927	J. D. Craig	B. D. Flynn		H. S. Beers.
November 1928	J. D. Craig	B. D. Flynn		H. S. Beers.
November 1929	J. D. Craig	B. D. Flynn		H. S. Beers.
November 1930	J. D. Craig	B. D. Flynn		H. S. Beers.
November 1931	B. D. Flynn	J. F. Little		H. S. Beers.
November 1932	B. D. Flynn	J. F. Little		H. S. Beers.
November 1933	J. F. Little	E. E. Cammack		H. S. Beers.
November 1934	J. F. Little	E. E. Cammack	J. F. Little	H. S. Beers.
November 1935	E. O. Dunlap	C. W. Gernerding	D. A. Walker	H. S. Beers.
November 1936	E. O. Dunlap	C. W. Gernerding	D. A. Walker	H. S. Beers.
November 1937	E. E. Cammack	G. W. Fitzhugh	F. B. Gerhard	H. S. Beers.
November 1938	E. E. Cammack	G. W. Fitzhugh	F. B. Gerhard	H. S. Beers.

EXHIBIT No. 653

[Prepared by E. E. Cammack, Vice President, Aetna Life Insurance Co.]

List of standing committees

Mortality Committee.....	Ætna, Chairman.
Complaint Committee.....	Metropolitan, Chairman.
Group Annuity Committee.....	Prudential, Chairman.
Sickness and Accident Committee.....	Metropolitan, Chairman.
Hospitalization Committee.....	Equitable, Chairman.
Sub-Committee on Group Hospitalization Ex- perience.	Ætna, Chairman.
Group Annuity Experience Committee.....	Metropolitan, Chairman.
Committee to Cooperate with Legal Departments in Dealing with Legislative Matters.	Metropolitan, Chairman.

EXHIBIT No. 654
 [Prepared by the Securities and Exchange Commission Insurance Study Staff]
Members of Group Association, 1926-1938

	1926		1927		1928		1929		1930		1931		1932		1933		1934		1935		1936		1937		1938	
	Jan.	July	Jan.	July	Jan.	July	Jan.	July	Jan.	July	Jan.	July	Jan.	July	Jan.	July	Jan.	July	Jan.	July	Jan.	July	Jan.	July	Jan.	July
Aetna Life Insurance Company																										
Canada Life Assurance Com-																										
pany																										
Connecticut General Life Insur-																										
ance Co.																										
Equitable Life Assurance Society																										
London Life Insurance Com-																										
pany																										
Metropolitan Life Insurance																										
Company																										
Missouri State Life Insurance																										
Co. (General American L. I.																										
Co.)																										
Prudential Insurance Company																										
of America																										
Travelers Insurance Company																										
Sun Life Assurance Company																										
of Canada																										
Minnesota Mutual Life Insur-																										
ance Company																										
Pan-American Life Insurance																										
Company																										
Confederation Life Insurance																										
Company																										
Employers Liability Assurance																										
Corporation																										
Great West Life Insurance Com-																										
pany																										
North American Life Assurance																										
Company																										
Standard Accident Insurance																										
Company																										
West Coast Life Insurance Com-																										
pany																										
Western States Life Insurance																										
Company																										
Mutual Life Assurance Com-																										
pany																										
Union Labor Life Insurance																										
Company																										

The Grown Association—Attendance at meetings

[illegible]

[illegible]

EXHIBIT No. 656

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Group Life Insurance in the United States

[Includes United States Business of Both Canadian and U. S. Companies]

Year	All U. S. and Canadian Cos. Writing Group Life in U. S.		All Group Association Cos. (U. S. and Canadian)		Percentage of Insurance in Force Attributable to Group Association Cos. Ratio—Column (4) To Column (2)
	Number of Companies	Insurance In Force, End of Year	Number of Companies writing group life	Insurance In Force End of Year	
	(1)	(2)	(3)	(4)	
1926.....	81	\$5,398,337,000	9	\$5,136,560,000	Percent 95.2
1927.....	87	6,422,689,000	13	5,987,077,000	93.2
1928.....	92	8,081,447,000	15	7,442,166,000	92.1
1929.....	92	9,167,860,000	16	8,550,115,000	93.3
1930.....	101	9,967,929,000	16	9,158,757,000	91.9
1931.....	106	10,062,508,000	18	9,432,902,000	93.7
1932.....	108	9,197,813,000	18	8,580,933,000	93.3
1933.....	106	8,943,427,000	18	8,345,560,000	93.3
1934.....	103	9,663,423,000	18	9,046,278,000	93.6
1935.....	107	10,523,868,000	19	9,847,254,000	93.5
1936.....	103	11,524,470,000	20	10,881,841,000	94.4
1937.....	105	12,970,725,000	19	12,227,549,000	94.3

Over the period 1926-1937 the Group Association Companies had on the average 93.5% of the total group life insurance in force in the United States. Over the twelve-year period, January 1, 1926 to December 31, 1937, the Group Association Companies wrote on the average more than 81% of the initial group life insurance issued under new contracts. Such percentage was in no year less than 74% and in some years amounted to over 85%. The six large eastern U. S. companies of the Group Association—namely, the Aetna Life Insurance Company, Connecticut General Life Insurance Company, Equitable Life Assurance Society of the United States, Metropolitan Life Insurance Company, Prudential Insurance Company of America, and Travelers Insurance Company—controlled, over the period 1926-1937 inclusive, 86.1% of the total group life insurance in force in the United States, such percentage varying from a low of 84.24% to a high of 91.88%. Over the twelve-year period these six companies wrote more than 70% of the initial insurance written under new contracts, such percentage in any individual year being at no time less than 64%, and in one year exceeding 82%.

Source: Spectator Insurance Year Book (Life Insurance) Issues of 1927-1938 inclusive.

EXHIBIT No. 657

[Prepared the Securities and Exchange Commission Insurance Study Staff]

RULINGS OF NEW YORK SUPERINTENDENT OF INSURANCE ON GROUP LIFE INSURANCE

The following schedule was prepared from the Minutes of the Group Association. It reflects rulings made by the New York Superintendent of Insurance pursuant to Section 101 (a), subsection 3, of the New York Insurance Law and at the recommendation of the Group Association. It shows the date on which the desired ruling was discussed and approved by the Association, the date, where known, on which it was recommended to the Superintendent, and the date on which it was promulgated by him. The formal promulgation was frequently in the identical language of the recommendation.

Ruling	Date Discussed and Approved by Association	Date Recommended to Superintendent (Where Known)	Date Promulgated
Rule limiting scope of disability clause.	November 16, 1926.....	December 1, 1926.....	December 16, 1926.
Rule fixing maximum rate of contribution by employees.	February 5, 1929.....	February 9, 1929.....	March 1, 1929.
General revision of extras.....	August 19, 1930.....		November 15, 1930.
Extension of cotton mill extra to cover cotton, rayon, and wool processes.	February 17, 1931.....		March 10, 1931.
Reduced extras for transport and/or air-mail companies.	August 18, 1931.....		September 26, 1931.
Minimum conversion charge.....	November 15, 1932.....	November 18, 1932.....	November 22, 1932.
Extras for silk industry.....	November 21, 1933.....	December 8, 1933.....	December 16, 1933.
General revision of extras.....	May 20, 1936.....		July 9, 1936.
General revision of extras.....	May 19, 1937.....		July 26, 1937.
Extras for police benevolent and civil service associations.	May 17, 1938.....		July 16, 1938.

EXHIBIT No. 658

[From files of Aetna Life Insurance Co.]

GROUP LIFE RULES—JUNE 1938

UNDERWRITING RULES RECOMMENDED BY THE GROUP ASSOCIATION

In order to carry out the objects declared in Article II of the Constitution and to the end that employers and employees insured under Group policies may be treated equitably and without discrimination, and in order to promote uniformity and economy in administration, so as to insure a reasonable cost for this kind of insurance protection to all employers and employees and to keep the expense of administration within reasonable limits, the following rules are suggested to the members as adequate for these purposes:

1. A rate of interest should not be guaranteed in excess of $3\frac{1}{2}\%$ in the calculation of payments by instalments instead of in one sum.
2. Two scales of commission are shown below:

First Scale

Part of Premium	First Year	Renewals for Nine Years
	Percent	Percent
\$1,000 and under.....	20	5
From \$1,000 to \$5,000.....	20	3
From \$5,000 to \$10,000.....	15	$1\frac{1}{2}$
From \$10,000 to \$20,000.....	$12\frac{1}{2}$	$1\frac{1}{2}$
From \$20,000 to \$30,000.....	10	$1\frac{1}{2}$
From \$30,000 to \$50,000.....	5	$1\frac{1}{2}$
Over \$50,000.....	$2\frac{1}{2}$	1

Second Scale

Part of Premium	First Year	Renewals for Nine Years
	Percent	Percent
\$5,000 and under.....	$12\frac{1}{2}$	$2\frac{1}{2}$
From \$5,000 to \$10,000.....	$7\frac{1}{2}$	2
From \$10,000 to \$100,000.....	$4\frac{1}{2}$	2
From \$100,000 to \$250,000.....	$2\frac{1}{2}$	$\frac{1}{2}$
Over \$250,000.....	1	$\frac{1}{2}$

One or the other of these scales should be adopted as a maximum scale for soliciting agents and brokers and renewal commissions should not be commuted.

No additional commission or expense allowance should be paid to any agent except a General Agent who represents his Company full-time and to the exclusion of all other Companies; provided that General Agency contracts contrary to the foregoing that have been entered into prior to February 20, 1934, need not be cancelled immediately but should be eliminated as soon as possible.

No first year commission should be paid upon policies issued in conversion of Group Insurance except that where no renewal commission is paid a first commission of not to exceed 10% may be allowed.

No commissions should be paid upon any extra premium charged aviation transport and/or air-mail companies when the extra premium is calculated on the basis of the number of hours flown.

3. Rates for "labor union groups" should not be guaranteed for more than one year.

Rates for "employer groups" should not be guaranteed for more than one year, except that the initial rate schedule may be guaranteed against increase for not more than five years in the case of a policy where no extra premium of any sort is charged.

Rates for "association groups" should not be guaranteed for more than one year, except that the initial rate schedule may be guaranteed against increase for not more than five years if (1) only employees actively engaged in employment which qualifies them for membership in the association shall be eligible for insurance, (2) at least 75% of the actively engaged employees eligible for membership are,

or become members, and apply for the insurance, (3) no extra premium of any sort is charged.

In no case should rates be guaranteed for more than one year when the policy represents insurance transferred from another company.

(September 1938.)

4. No class of employees should be insured under a Group policy issued to an actual employer, under which any employee in the class pays more for his aggregate Group Life Insurance than indicated by the following table:

Rate at Which Policy is Written	Maximum Contribution from Employees per Thousand	
	Monthly	Weekly
	Cents	Cents
Standard.....	60	14
Standard plus \$1.00.....	70	16
Standard plus \$2.00.....	75	17
Standard plus \$3.00 or more.....	80	18

In the contributory cases three months should be the maximum period allowed employees to elect the insurance without the insurance company reserving the right to require evidence of insurability.

The application should show the maximum contribution to be made by employees. The balance of the premium should be paid by the employer.

In the state of New Jersey, the employees of municipalities may pay 75% of the premium.

5. Group policies should not cover employees who are sick at the time insurance is effected unless the number of persons in the group is over 500, in which cases all may be insured; provided, however, that if the policy replaces one previously in force with another carrier, sick employees may be insured but only after their protection under the previous policy ceases.

Policies should provide that the insurance of an employee shall be increased in accordance with the insurance schedule only if the employee is in active service on the date of eligibility for increase; otherwise, on return to active service.

(December 1937.)

6. No schedule of insurance should be allowed that provides for less than \$500 of insurance for any employee insured after the completion of one year's service. A minimum of \$250 may be allowed under the schedule for employees of less than one year's service.

This rule does not apply to Group policies issued to labor unions or associations.

7. A company should not write further insurance on a group of employees already insured under another Group policy in another company. Wholesale Insurance should not be written insuring employees already covered under a Group or Wholesale policy.

Furthermore, Group Insurance should not be divided between two Companies so as to give amounts in excess of the limit which one Company will furnish under a single policy.

This rule does not apply to policies issued to labor union or association groups except that it should govern the question of the issuance of new policies to labor unions or associations confined to the employees of one employer.

8. Companies should discourage the transfer of Group Insurance from one Company to another, and field representatives should be prohibited from submitting Group propositions to employers on any plan (Life, Disability, Death, and Dismemberment or Annuities) where such coverage is carried in another Company. When a field representative is requested by an employer to submit such a plan, he should be instructed to submit nothing but to refer the matter to his Home Office.

In such a case the following rules will apply:

(a) The Company from which quotation is requested will immediately notify the insurance carrier.

(b) The field representative may be notified that he may submit a plan with the understanding that the insurance will be written, but only after fifteen days' notice from the employer to the old company that the old policy is to be cancelled.

Moreover, no application can be accepted or solicitation of employees commenced more than fifteen days prior to the termination of the old policy.

The above rule applies also where two or more insurance companies have coverage on separate units of one employer.

Where there is a merger of two or more employers, one or more of whose plants is covered by Group Insurance, no quotation can be made for an insured unit (except by the present carrier) except in accordance with the above rule.

When the field representative is notified that he may submit a plan, he will also be instructed to advise the employer of the disadvantages of transfers.

When an insured company is split into two or more independent units or when the control of an insured company changes, the coverage prior to the split or change in control may be reissued within six months after the split-up or change in control by the original insurance carrier to the units it previously covered. Commissions may be paid for the unexpired term at a rate not to exceed that which would have been paid had there been no change. If at the same time, in the case of any unit, the coverage is extended to employees previously uninsured by the original carrier, Rule 16 should apply. No quotation should be made by any other company for a unit whose employees were previously insured except in accordance with the rules regarding transferred business.

In order to discourage transfers, no commissions should be paid to any soliciting agent or broker for Group Insurance effective within six months of the premium due date as of which the coverage was terminated under a policy previously carried by another company; except that commission may be paid on additional insurance resulting from the addition of new classes of employees or new units not eligible under the policy with the previous carrier. A collection fee of not more than 1% for the first \$50,000 of premium and $\frac{1}{2}$ of 1% on the balance may be paid to the General Agent for handling the business.

When an application has been given for Group Insurance and a substantial deposit in payment of premium has been made, the case should be considered a closed case.

The same rules are applicable to Wholesale Insurance except where it is to be replaced by Group Insurance.

9. A Company should not offer to make any definite allowance, premium reduction, credit, or payment of increased dividends to the employer, or any employee of the employer, directly or indirectly, for clerical work, claim investigation or settlement, solicitation of employees on contributory plans, or any other kind of work done or service performed by the employer or by the employer's employees in connection with the installation or administration of a Group Insurance plan; nor should any company furnish its employee to the employer to perform clerical or other work in connection with the Group Insurance plan which is usually done by the employer or by the employees of the employer.

9-A. No overhead cost, dividend, or rate reduction should be estimated by size of risk, either directly or indirectly, by statement of current cost of operation or otherwise. The only data submitted should be actual past experience on actual cases.

10. Labor Unions should be defined as organizations of men and/or women of the same trade or calling or of several allied trades or callings which are organized and maintained for the primary purpose of securing and maintaining by united action the most favorable conditions as regards wages, hours and conditions of labor, and the protection of their individual and collective rights in the prosecution of their trades or callings.

Only unions covering employees of more than one employer should be eligible for group insurance, except that unions composed solely of employees of one employer may also be eligible if they are a part of or in direct affiliation with a State, National, International, or Federated Labor Union or if they consist of employees of a Federal, State, County, or Municipal Government (or subdivision thereof).

Group insurance for unions should be subject to commissions, both new and renewal, at not more than one-half of the corresponding regular group rates.

10-A. Associations should not be eligible for group insurance, except that associations of employees of a Federal, State, County, or Municipal Government (or subdivision thereof) may be eligible for group insurance if at least 75% of the members, or 500, whichever is greater, apply for the insurance, or if at least 75% of the employees eligible for membership are or become members and apply for the insurance.

Group insurance for associations should be subject to commissions, both new and renewal, of not more than one-half of the corresponding regular group rates.

11. Except as specified in Rule No. 10, a Group policy should only be issued to a single employer (including a parent corporation with subsidiary companies

or allied companies owned and controlled by the same parties) covering his employees, and should only be written in accordance with the definition adopted in the New York Insurance Law; Group policies should not be issued to associations of employers covering their employees.

(June 1938.)

12. The maximum amount of insurance to be issued in any group should be determined by (a) the total amount of insurance in the group when actually issued, and (b) the amounts of insurance on the lives of the fifty employees insured for the highest amounts, as follows:

Total Insurance in Group When Actually Issued	Maximum amount, if at least fifty employees are insured for at least			Maximum amount if there are not fifty employees insured for at least \$1,000
	\$5,000	\$2,000	\$1,000	
Under \$100,000.....			\$2,500	\$1,500
\$100,000 to \$200,000.....		\$4,000	3,000	2,000
\$200,000 to \$350,000.....		5,000	3,000	3,000
\$350,000 to \$500,000.....	\$7,000	5,000	4,000	4,000
\$500,000 to \$700,000.....	19,000	5,000	5,000	5,000
\$700,000 to \$900,000.....	10,000	6,000	6,000	6,000
\$900,000 to \$1,100,000.....	10,000	7,000	7,000	7,000
\$1,100,000 to \$1,300,000.....	10,000	8,000	8,000	8,000
\$1,300,000 to \$1,500,000.....	10,000	9,000	9,000	9,000
\$1,500,000 to \$6,000,000.....	10,000	10,000	10,000	10,000
\$6,000,000 to \$7,000,000.....	11,000	11,000	11,000	11,000
\$7,000,000 to \$8,000,000.....	12,000	12,000	12,000	12,000
\$8,000,000 to \$9,000,000.....	13,000	13,000	13,000	13,000
\$9,000,000 to \$10,000,000.....	14,000	14,000	14,000	14,000
\$10,000,000 to \$11,000,000.....	15,000	15,000	15,000	15,000
\$11,000,000 to \$12,000,000.....	16,000	16,000	16,000	16,000
\$12,000,000 to \$13,000,000.....	17,000	17,000	17,000	17,000
\$13,000,000 to \$14,000,000.....	18,000	18,000	18,000	18,000
\$14,000,000 to \$15,000,000.....	19,000	19,000	19,000	19,000
\$15,000,000 and over.....	20,000	20,000	20,000	20,000

Term Insurance on the Wholesale plan should not be used as a means of increasing the maximum amounts allowed under a Group policy.

This rule applies not only to new Group policies but also to changes in existing policies and companies should not extend existing schedules beyond the limits of this rule.

Group Insurance should not be written in conjunction with a group of individual policies (issued without right to reject) where the aggregate insurance on the life of any person under both the group and the individual insurance exceeds the limit for Group Insurance.

(December 1937.)

13. Group Life policies (including only policies issued to an employer to cover his employees; but not including Wholesale policies or policies on a Group term covering less than 50 employees in the United States) may contain a waiver of premium provision to the effect that if an employee, while insured and while under age 60, becomes totally and permanently disabled, premiums will be waived during such disability provided the employee shall submit proof of continued disability at least once a year. The policy should not provide for presumption of permanency until total disability has lasted at least nine months. The policy should not provide for refund of premiums paid before submission of proof of disability. The policy should provide that the initial proof of permanent total disability must be submitted before or within twelve months after termination of premium payments for the employee, during which twelve-months period the insurance shall be in force during continued total disability. The amount of insurance on the life of such employee shall be the amount provided by the insurance schedule in the policy but not in excess of the amount in force at termination of premium payments for the employee.

If a policy does not contain the above disability clause, it may contain an alternative disability clause only if it provides (a) for no payment during the lifetime of an employee, and (b) for waiver of premiums on a disabled employee for a period not longer than the period the employee has been insured, nor for a longer period than one year in any event, and (c) for no payment if death occurs after the employee attains age sixty-five.

14. Policies should provide that the conversion privilege should be granted only upon termination of employment except that in the case of labor-union groups the conversion privilege may be granted on termination of membership.

15. A company should not make, or offer to make, any allowance, premium reduction, credit, or payment of increased dividend on account of the nonpayment of the whole or any portion of the regular scale of commissions.

(September 1938.)

16. Where Group Insurance is in force on only a section or sections but not all of the employees of the holder of a Group policy or policies, either due to certain classifications of employees or factory or other units having been omitted from the list of eligible employees at the issue of the policy, or due to the subsequent taking over of new units or organizations, or due to the merger of the original insured unit or units with some other concern, or due to the absorption of such unit or units by some larger organization, insurance may not be placed on a portion or the total of an additional section or sections (either by addition to the existing policy or policies or by issuance of an additional policy or policies, or by both) and considered as an addition to the existing policy or policies if the total number of employees eligible to be insured in the entire section or sections becoming insured at one time (i. e., within a period of 32 consecutive days), together with the number of employees insured in any other section or sections of employees to whom the coverage has been extended and considered as an addition to the existing policy or policies within the preceding twelve-month period, shall be greater than the number of employees insured under the policy or policies one year prior to the date that the insurance on such additional section becomes effective. In any event, except as provided in Rule 20, when such additional section or sections of employees exceeds 750 lives and exceeds 10% of the number of lives already insured and is already insured in another company, it should be covered only under the rules for the issue of new insurance; but, under Rule 8, should be considered as transferred business regardless of size.

17. Only those Directors who receive a regular stipulated compensation of at least \$1,000 annually from the assured employer other than compensation for attending meetings should be covered under a Group policy.

18. The application for insurance, or a preliminary proposal to be signed by the employer, should contain a question as to whether there is any present or previous Group Life Insurance, and if so, when lapsed together with the name of the previous insurer.

19. Policies should provide that the Company may refuse to renew if the number insured falls below 50 lives or if the number insured falls below 75% of the eligibles.

(March 1939.)

20. Where Group Insurance, including a permanent and total disability clause providing for payment of the insurance to the employee while alive, is in force on only a section of the employees of a Group policyholder either due to certain classifications of employees or factory or other units having been omitted from the list of eligible employees at the issue of the policy, or due to the subsequent taking over of new units or organizations, or due to the merger of the original insured unit or units with some other concern, or due to the absorption of such unit or units by some larger organization, insurance including such a permanent and total disability clause may not be placed on an additional section of employees if the number of employees eligible to be insured in such additional section, together with the number of employees insured in any other sections of employees to whom the coverage has been extended within the preceding twelve month period, shall be greater than the number of employees insured under the policy one year prior to the date that the insurance on such additional section becomes effective.

21. In case an Insurance Company, in accordance with Rules 16 or 20, or both, shall quote Group Insurance to cover an affiliated company located in a different country from the Company now insured, any other Insurance Company may quote the same policy provisions as to disability clause, employee rate of contribution or minimum amount of insurance as are being offered by the carrier of the Company now insured with which the prospect Company is affiliated.

22. After Group coverage has been cancelled for over two years from the due date of the premium defaulted, the insuring company should not rewrite the group and consider the new coverage a continuation of the old policy with regard to policy provisions, schedule or financial experience.

(December 1937.)

EXHIBIT No. 659

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Total group annuity business in force, end of year—1934-1938

	1934			1935			1936			1937			1938		
	No. of Con- tracts	No. of Certi- ficates	Annual Income (Dollars)	No. of Con- tracts	No. of Certi- ficates	Annual Income (Dollars)	No. of Con- tracts	No. of Certi- ficates	Annual Income (Dollars)	No. of Con- tracts	No. of Certi- ficates	Annual Income (Dollars)	No. of Con- tracts	No. of Certi- ficates	Annual Income (Dollars)
Aetna Life Insurance Co.	115	29,035	1,133,158	126	32,112	1,925,706	133	44,170	3,031,006	142	55,089	3,605,998	152	76,963	5,040,914
Connecticut General Life Insurance Co.	6	756	53,480	9	1,943	89,074	10	1,185	130,430	16	10,063	334,007	22	11,804	496,647
Equitable Life Assurance Society	57	20,774	3,303,581	68	25,741	4,865,854	87	76,140	6,746,802	106	108,178	9,504,000	136	118,576	12,106,219
John Hancock Mutual Life Insurance Co.	0	0	0	0	0	0	0	0	0	2	3,540	62,434	8	17,588	843,616
Metropolitan Life Insurance Co.	162	171,476	37,040,402	171	173,137	42,639,588	189	173,637	47,754,140	205	188,177	62,278,080	223	210,287	58,423,710
Minnesota Mutual Life Insurance Co.	0	0	0	1	23	3,913	1	24	4,852	2	140	16,874	2	100	16,324
Prudential Insurance Company of America	21	41,780	10,873,094	24	46,152	15,738,244	29	95,315	20,903,478	41	108,564	22,629,363	55	133,353	24,984,844
Sun Life Assurance Company of Canada	28	6,877	3,708,374	31	8,266	4,844,041	31	8,423	5,273,418	30	8,314	4,910,771	29	8,294	5,035,857
Travelers Insurance Company	6	1,014	83,228	8	1,185	149,491	10	1,329	333,533	16	28,649	674,735	20	29,391	970,604
Totals, Association Companies	395	271,712	56,195,407	438	237,661	70,257,911	490	401,233	84,180,659	560	520,711	94,016,351	641	605,895	107,854,735
Occidental Life Insurance Co.	0	0	0	1	6,205	1,129,459	1	7,301	1,269,406	1	8,893	1,410,829	1	9,103	1,502,354
Berkshire Life Insurance Co.	1	24	624	0	0	0	0	0	0	0	0	0	0	0	0
Totals, Association Plus Non-Association Companies	396	271,736	56,196,031	439	293,866	71,387,370	491	408,534	85,440,065	561	529,604	95,433,180	642	615,031	109,457,089

1 May include Canadian business.

2 United States business only.

3 Member of Group Association from May 1935 to May 1936.

4 From 1936 to 1938, inclusive, there is no record of any new group annuity business being issued by a non-Association company.

Sources: Spectator Insurance Year Book, Best's Life Reports, New York Reports, Annual Statements Filed with Insurance Departments.

"EXHIBIT No. 660" appears in the appendix to Hearings, Part VIII, p. 3487.

EXHIBIT No. 661

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Aetna Life Insurance Company.
Connecticut General Life Insurance Company.
The Travelers Insurance Company.

Stockholders' Dividends

Year	Aetna Life Insurance Co.	Connecticut General Life Insurance Co.	Travelers Insurance Co.	Total
1929.....	\$2,400,000	\$320,000	\$4,000,000	\$6,720,000
1930.....	1,803,000	300,000	4,400,000	6,500,000
1931.....	1,800,000	360,000	4,400,000	6,560,000
1932.....	450,000	330,000	3,200,000	3,980,000
1933.....	none	180,000	3,200,000	3,380,000
1934.....	600,000	240,000	3,200,000	4,040,000
1935.....	1,204,000	240,000	3,200,000	4,640,000
1936.....	1,425,000	240,000	3,200,000	4,865,000
1937.....	1,650,000	240,000	3,200,000	5,090,000
1938.....	1,800,000	240,000	3,200,000	5,240,000
Totals.....	\$13,125,000	\$2,750,000	\$35,200,000	\$51,075,000

Source: Annual Reports.

EXHIBIT No. 662

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Aetna Life Insurance Company
Connecticut General Life Insurance Company
The Travelers Insurance Company

Exhibit of Changes in Surplus, Ordinary Non-Participating Business

Years ended December 31—	Aetna Life Insurance Co.	Connecticut General Life Insurance Co.	Travelers Insurance Co. ¹	Total
1929.....	\$675,984	\$100,883	\$1,194,990	\$2,271,857
1930.....	-9,964,407	-505,747	-3,082,338	-13,552,492
1931.....	-5,241,539	498,220	793,300	-3,950,019
1932.....	-576,935	451,621	4,413,739	4,288,425
1933.....	-1,887,473	-985,567	614,992	-2,258,048
1934.....	519,482	396,902	2,687,301	3,603,685
1935.....	1,530,985	231,913	2,810,755	4,573,653
1936.....	1,762,595	1,200,770	7,091,395	10,054,760
1937.....	-699,715	58,013	-2,734,163	-3,375,865
1938.....	585,915	535,234	3,724,003	4,845,152
Totals.....	-\$13,295,108	\$2,282,242	\$17,513,974	\$6,501,108

¹ On December 31, 1933, Travelers Insurance Company's nonparticipating ordinary life-insurance business accounted for over 99.96% of their total insurance in force. Only nonparticipating business has been issued by the company since December 31, 1906. Statements furnished by the company do not segregate participating and nonparticipating business, and the figures shown above for Travelers Insurance Company represent gains and losses for all ordinary life-insurance business, including less than .04 of 1% participating life-insurance business as of December 31, 1938.

Source: Annual Reports.

EXHIBIT No. 663

[From files of Travelers Insurance Co.]

JUNE 22, 1932.

Re New Life Rates.
President ZACHER
Vice President HOWARD
Actuary HAMMOND:

Vice President Cammack called on the phone this morning to discuss a uniform charge among companies to Group per thousand of insurance converted—and other matters. Toward the end of the conversation he asked what we were think-

ing about new life rates. I told him we were doing some studying along this line without reaching definite conclusions and asked what his thoughts were.

He stated that he had about come to the conclusion that 4% interest was as high as could be used, mortality approximating 80-85% of the American Men (probably a little higher than mortality basis of present Travelers rates) and loading to cover "regular" expenses. Cammack stated that they would like to go ahead with the idea of increasing rates but, of course, would be embarrassed if The Travelers did not do likewise. I told him that I did not see why the three local nonparticipating companies could not get together on a joint program, for if he was agreeable, we were willing, and from what Actuary Henderson said the other day the Connecticut General are thinking along the same line.

He stated that in his opinion some of the participating companies would go as far as a 50% cut in dividends this Fall, with possibly further cuts later on. I told him that in my opinion if we made a fairly early announcement of our program effective, say, as of the end of the year, it might have a material effect upon the action by participating companies. He didn't make any comment on my "end of the year" remark but said that in his opinion we should go ahead regardless of what participating companies may do. I told him that we were thinking along the same general lines as he was and that undoubtedly contact upon the subject would be made with the Aetna and Connecticut General in the near future.

(Signed) B. D. F.,
Vice President and Actuary.

BDF:B.

EXHIBIT No. 664

[From files of Travelers Insurance Co.]

[File]

JUNE 25, 1932.

From Actuary Hammond.

To President Zacher.

Vice-president Howard.

Vice-president and Actuary Flynn.

Subject: [New] Life Rates.

Nonparticipating companies, American Life Convention, appear to want to increase rates but are waiting to see what the three companies in Hartford will do.

In discussing the situation with Mr. Laird, he said that the Connecticut General was waiting to see what The Travelers and Aetna would do. I suggested that he might, on his return, take the matter up with The Travelers and that I felt sure that the Company would cooperate. He said he would try to do so immediately upon his return.

I thought it advisable to suggest that Mr. Laird take this matter up, inasmuch as he had told me that President Huntington was away for two months. The absence of the President may delay definite action by the Connecticut General, although Mr. Laird did not intimate that that would be the case.

(Signed) H. P. H.
(Typed) H. Pierson Hammond.

HPH:O.

NOTE.—Notations enclosed in brackets.

EXHIBIT No. 665

[From files of Travelers Insurance Co.]

THE TRAVELERS

THE TRAVELERS INSURANCE COMPANY

L. EDMUND ZACHER, *President*

BENEDICT D. FLYNN,
Vice President and Actuary.

HARTFORD, CONNECTICUT, June 28, 1932.

Mr. L. E. ZACHER,
Chateau Frontenac, Quebec, Canada.

DEAR MR. ZACHER: A meeting was held in my office this afternoon on the general subject of prospective increase in nonparticipating life rates. Those present were Vice President Cammack, of the Aetna; Vice President Laird and Actuary Henderson, of the Connecticut General; Actuary Hammond, Assistant Actuary Hoskins, and myself. After considerable friendly and cooperative discussion the following points were tentatively decided upon.

1. The three local nonparticipating companies would increase rates effective upon the same date.

2. January 1, 1933, appealed to all three companies as a good date for making increased rates effective.

It was apparent from Mr. Cammack's general statements—which he made to me over the phone Saturday morning and again on the train from New York yesterday—that he had not as yet had an opportunity to talk with Mr. Brainard in regard to the effective date of rates. Although he thought that the first of next year might be satisfactory, he was inclined to consider this as tentative dependent upon developments in the way of dividend reductions and the progress of general conditions during the next three or four months. I would imagine that after he has talked with Mr. Brainard that this point as to effective date can be more definitely fixed.

3. It was tentatively thought desirable to have identical rates for all three companies for principal forms.

4. The Aetna and Travelers felt that 4% was a proper interest assumption as a basis for new rates. The Connecticut General thought that this was as low as we could go (they had previously mentioned 4¼%) and was agreeable to go along with the idea of 4% at least in the preliminary work of matching ideas on rates. My own opinion is that the Connecticut General will cooperate with the other companies upon a 4%-interest basis.

5. The Aetna's idea of a mortality basis was 90% of the American Men Table up to age 75, increasing 2% for each age up to age 80 for all forms other than Term which they would place upon a 100%-mortality basis for all ages. The Connecticut General's idea was to start at about 75% of the American Men at age 20, increasing to 100% at age 50 and going somewhat higher for the older ages. Our own idea follows more closely that of the Aetna. This basis should give a reasonable mortality margin for safety.

6. Expense loadings were discussed tentatively with the result that a reasonable loading for expenses and profit by age can be safely counted upon.

7. Surrender Values: The Connecticut General which has had rather liberal surrender values is agreeable to a material change particularly in those at the end of the third, fourth, and other early policy years. The Aetna at present have values which are not quite so liberal as ours and would prefer not to increase surrender charges materially. There was the further point that the Aetna use the same values for both participating and nonparticipating business and did not feel that they could lower participating values because of participating competition. Our own position was that we would like to have as high surrender charges as possible particularly in the early years.

It was finally concluded that each company would study the question of mortality, expense loadings, and surrender charges more fully in the light of its own experience and that we would get together again on July 13 in an attempt to settle more definitely upon these elements.

Mr. Laird suggested that it might be advisable after we had pretty definitely determined our program to invite a few of the important Middle Western nonparticipating companies into conference on the matter.

The general conclusion from today's meeting would be that material progress has been made and we can with fair assurance assume that the local nonparticipating companies will act together in an increase in life rates at the end of this year.

Sincerely yours,

(Signed) B. D. FLYNN,
Vice President and Actuary.

BDF:B.

EXHIBIT No. 666

[From files of Travelers Insurance Co.]

[File]

OCTOBER 20, 1932.

From: Vice President and Actuary Flynn.

To: Actuary Hammond.

Assistant Actuary Hoskins.

Re Aetna's Modified Life Form.

Mr. Cammack phoned this morning to state that they were endeavoring to increase their modified life rate but discovered that if they followed the basis of their new life rates they would have nonparticipating rates at certain ages higher than those of the Prudential's modified life. Little is increasing his modified 3 rates at ages between 50 and 60 but not changing his modified 5 rates. Cammack is proposing to continue his present modified life rates. The contract is not as liberal as that of the Prudential in that 40% commission is paid at first and 40% only on the increase of premium at the end of the five-year period, whereas he

understands the Prudential pays the commission on the whole premium at the end of the preliminary period.

As I understood it over the phone, Cammack checked his present modified life with the rates which would be required under the new program and found that at age 40 there was no difference; at age 45 the old rates were 60¢ inadequate; at age 55, \$1.23 inadequate; and at age 65, \$2 too much.

Cammack stated that he called in order to remove any question of bad faith in the matter—although he presumed that we would not be particularly interested.

B. D. FLYNN.

BDF:B.

EXHIBIT No. 667

[From files of Aetna Life Insurance Co.]

AETNA LIFE INSURANCE COMPANY,
Hartford, Connecticut, Nov. 17, 1932.

Memo. for Mr. H. S. BEERS,
Associate Actuary:

In conversation yesterday with Mr. Huntington and Mr. Zacher with reference to the new rates, Mr. Huntington told me that his Actuarial Department have just discovered that the Aetna did not propose to raise its present Modified Life rates. He gave me a memorandum handed him by Mr. Laird. Will you read this and then discuss the matter with me?

(Signed) M. B. B.,
President.

Encl.

MEMORANDUM TO MR. HUNTINGTON RE CONTINUATION OF PRESENT RATES ON
AETNA'S MODIFIED LIFE POLICY

The continuation of the present rates by the Aetna on this policy form will be a very serious thing from a competitive standpoint. Because I had been assuming that we were going to have almost 100% cooperation between the three companies, I was very much surprised when I heard of their decision.

The table given below, which compares the Aetna's present rates for the Modified Life plan with the rates to be adopted for 5-Year Term and Ordinary Life plans, needs no explanation to show the competitive advantage to the Aetna if they retain their present Modified Life rates. Take for example, the comparison of a Modified Life policy issued at age 50 with a 5-Year Term policy issued at the same age and converted to Ordinary Life five years later. Within seven years the accumulated cost under the Modified Life policy will equal the cost under the 5-Year Term and Ordinary Life combination, and from then on the Modified Life policy will have an advantage of \$5.39 per year per thousand. When we compare a Modified Life policy and an Ordinary Life policy issued at age 50; the Aetna's competitive advantage is even more marked. It will take twenty-three years before the accumulated cost under the Modified Life policy will equal the accumulated cost under the Ordinary Life policy. The advantage of the Ordinary Life policy from then on is of no real value because the insured is then 73 years of age, at which time only a small proportion of the original policyholders who took insurance at age 50 will be alive and still paying premiums.

Age	Aetna's Modified Life Rate	New T. 5 & O. L. Rates	Aetna ahead after—	New O. L. Rate	Aetna ahead for—
30.....	9.60	8.35	12 years.....	16.92	21 years.
	¹ 19.20	² 20.06			
40.....	13.51	10.45	10 years.....	24.26	24 years.
	27.02	23.85			
45.....	16.57	13.20	9 years.....	29.85	25 years.
	33.14	37.27			
50.....	20.89	17.89	7 years.....	37.27	23 years.
	41.78	47.17			
55.....	26.03	25.26	6 years.....	47.17	20 years.
	53.86	60.44			
60.....	37.58			60.44	12 years.
	75.16				
65.....	51.99			79.88	10 years.
	103.98				

¹ After 5 years.

² O. L. rates when converted at end of 5 years.

The basic mortality table for the new permanent plan rates is 90% of the American Men Select and Ultimate Table, with interest of 4%. In the following table I have compared the new gross premiums with the net premiums obtained from such a table. The same comparison has been made between the present Modified Life rates of the Aetna with the corresponding net premium.

Age	Ordinary Life	Term 5	Our Convertible to 65	Aetna's Modified Life, Using Present Gross Rates
	%	%	%	%
30.....	132	246	150	132
40.....	128	220	144	122
50.....	123	189	138	116
55.....	122	178	139	115
60.....	122	170	not issued	122

It will be noticed that the loading is much higher in the case of the 5-Year Term plan than in the case of the Ordinary Life plan. It will further be noticed that the loadings in the case of our Convertible to 65 lie between those for the Ordinary Life plan and those for the 5-Year Term plan. The Modified Life which has a certain Term Insurance element about it should require a higher loading than Ordinary Life.

E. C. HENDERSON,
Actuary.

ECH:PHP.
November 16, 1932.

EXHIBIT No. 668

[From files of Aetna Life Insurance Co.]

DECEMBER 6TH, 1932.

Mr. M. B. Brainard, President.
H. S. Beers, Associate Actuary.
Modified Life Premium Rates.

Mr. Keffer and I have attended three meetings with Mr. Laird, of the Connecticut General, Mr. Flynn, of the Travelers, and their assistants, and this morning we reached an understanding with them with regard to the proper rates to be charged for Modified Life policies. The following table shows a comparison between the present rates and the new rates during the first five-year period:

Age	Present Rate	New Rate	Age	Present Rate	New Rate
30.....	\$9.60	\$9.81	45.....	\$16.57	\$17.30
35.....	11.28	11.68	50.....	20.89	21.80
40.....	13.51	13.98	55.....	26.93	27.62

Below age 30 these rates grade down into the rates for Five-Year Term Insurance converted at the end of five years to Ordinary Life Insurance.

At ages 60 and above we shall use our present rates, which are higher than the rates by the new formula.

Under our present policies if provision is included for waiver of premiums in the event of disability, the extra premium is the same both during the first five years and thereafter. In the Prudential the total premium doubles after five years, and we propose correspondingly for the new policies to use a waiver premium which doubles after five years instead of a level premium as heretofore. This may place us in a stronger position competitively without involving a reduction in premium rates.

(Signed) H. S. B.,
Associate Actuary.

EXHIBIT No. 669

[From files of Travelers Insurance Co.]

NOVEMBER 16, 1932—1:50 P. M.

Mr. Laird, Vice president and Actuary of the Connecticut General, has just called me on the telephone. I understand from Mr. Laird that there is to be a meeting of the Presidents of the Aetna Life, The Travelers, and Connecticut General at 2:30 o'clock today in the Connecticut General building.

Mr. Laird stated that Mr. Cammack has not had anything to say relative to any change in the rates of their Modified Life contract. The Connecticut General has just discovered that the Aetna Life proposes to make no change in such rates, and as he understands it the Aetna Life takes the position that if they raise their rates for this form they will be unable to compete with the corresponding policy of the Prudential, namely, the Modified Five.

Mr. Laird feels that the loading on the Aetna Life form should be somewhere between the Ordinary Life and Five-Year Term, although possibly the Ordinary Life loading would be satisfactory.

Mr. Laird told me that he was taking this matter up with President Huntington and expressing the opinion that unless the Aetna Life will change its rates upon the Modified Life contract it practically nullifies the entire program. I assume that the conclusions reached by Mr. Laird are probably based upon the fact that the Aetna Life writes a great deal of business on this form in place of Ordinary Life.

Assistant Actuary Hoskins was present when this memorandum was dictated and stated that it was his understanding that Mr. Cammack had told Vice president and Actuary Flynn that the Aetna Life would not follow the regular formula as we [had] expected ~~to~~ [the] Aetna Life to do.

(Signed) H. P. H.

(Typed) H. Pierson Hammond.

HPH:O.

NOTE.—Crossed-out matter in linetype; new matter enclosed in brackets.

EXHIBIT No. 670

[From files of Travelers Insurance Co.]

DECEMBER 28, 1933.

Re Proposed New Program of Life Rates and Values.

President ZACHER,

Vice President HOWARD:

A meeting on the above subject of officials of the three local stock life companies was held on Wednesday morning, December 27, at the Aetna.

Mr. Cammack proposed that the Travelers, Connecticut General, and Aetna increase present life rates for all forms, excepting Term, by changing the interest basis from 4% to 3½%. This would mean an increase, upon the average (for forms other than Term), of approximately 2½% or 75¢ per thousand. The increase would be somewhat less for Ordinary Life than the average and somewhat more for the higher premium forms. If the interest basis of Term contracts were changed as suggested, the average increase would, because of the lower reserves involved, be in the neighborhood of 5¢ per thousand.

Further, he proposed that the full legal surrender charge of \$25 per thousand of insurance be made throughout the term of the contract. We now have lower surrender charges for the 11th year on nearly all forms and also in the earlier years on low-premium forms.

You will recall that when life rates were under discussion last year, although rates and values agreed upon were generally satisfactory to us, nevertheless, we would have been glad to have even higher rates and lower values but could not get the Aetna to concur at that time.

Mr. Laird said that the Connecticut General was not convinced that this move would be a wise one at the present time and that they would like to wait at least until the end of February before making a decision. He stated that President Huntington was feeling more optimistic; he (Mr. H.) felt that fundamental changes for the better had taken place and that interest rates might work up somewhat before many years. Mr. Laird stated also that an increase as proposed would bring our gross rates above those of certain participating companies at certain ages—as, for example, the Metropolitan's Special Ordinary Life at older ages; that the participating companies have not yet gone as far as the nonparticipating companies in modifying surrender values—although there

is a move on foot among the five large metropolitan companies to make a \$25 surrender charge throughout the policy term; that the field forces of the Connecticut General were competing mainly with the small participating companies, such as the Phoenix Mutual and Connecticut Mutual, who had not as yet modified values or increased materially net cost; that we had increased our rates and reduced our values less than a year ago and it might be upsetting to confidence if stock companies felt it necessary to increase rates again so soon.

We stated that the proposal necessarily brought up many points for consideration and that though we were in sympathy with the general idea, we did not feel ready to agree upon the proposal that morning, as Mr. Cammack was urging.

Various other matters came up during the discussion.

It was pointed out that recent mutual dividend reductions relieved the competitive situation somewhat and that the trend toward smaller policies means that competition will be less of a consideration in the next few years, thus indicating that the traffic might stand a rate increase. On the other hand, it was brought out that another rate increase so soon after the one made last April might upset the confidence of field forces; that in the past, general rate increases have been made infrequently—never within four years of each other.

It was also pointed out that it might be possible to make a rate change at an early date and defer till later the change in values, possibly until the mutual companies had taken a further step in the same direction. Reference was made to the fact that the interest-rate basis affects a company's trust-agreement program and certain policy options and maturity values.

The Aetna produced a sheet showing a comparison of the proposed new nonparticipating rates on the Ordinary Life form at various ages with the 1934 net cost, by policy years of six participating companies. For example, net cost of the Massachusetts Mutual contract under 1934 dividend scale would reach the proposed nonparticipating rate, Ordinary Life, age 40, at the end of the 15th year; Mutual Benefit would reach it at the end of the 14th; Northwestern Mutual at the end of the 4th; New York Life at the end of the 10th. The Provident Mutual's net cost would be lower than the stock rate at the end of the first year and thereafter. This comparison showed also that the Aetna's participating Ordinary Life at age 40 would show a net cost lower than the proposed nonparticipating rate at the end of the 5th year; age 50, at the end of the 4th year; age 30, at the end of the 9th year. When Mr. Cammack was asked how the Aetna could show a lower net cost under its participating form than the proposed nonparticipating rate so early in the history of the former policy, he explained that the Aetna's current year dividends were fixed before other participating companies had made their material changes. To a query as to whether or not the Aetna's participating assets were earning a higher rate than those of their nonparticipating department, he gave no satisfactory answer.

The Aetna will begin to issue January 1, 1934, their Elective Annuity contracts on a participating basis— $3\frac{1}{2}\%$ interest. They have not yet decided whether they will discontinue immediately or continue for a month or two their present nonparticipating form. I asked Mr. Laird if they would be agreeable to get together with us in a modification of our nonparticipating Elective Annuity forms, and he said that they would be glad to do this—probably in the near future. The general question of changing the present life program was left with the understanding that the Travelers and Connecticut General would study over the matter further, discuss it among their company officials, and report at a later meeting.

(Signed) B. D. F.,
Vice President and Actuary.

BDF:B.

(Copies to Actuary Hammond and Asst. Actuary Hoskins.)

EXHIBIT No. 671

[From files of Travelers Insurance Co.]

FEBRUARY 15, 1934.

Re Proposed New Program of Life Rates and Values.

President ZACHER,
Vice President HOWARD:

Another meeting on the above subject of officials of the three local stock life companies was held Wednesday morning, February 14, at the Aetna.

Mr. Cammack stated that the Aetna was prepared to go ahead with the preparation of rates and values upon the basis proposed at the last meeting, with the

idea that if conditions warranted, upon July 1, 1934, or possibly October 1, the new program would be put into effect. We stated that The Travelers was agreeable to such a program.

Mr. Laird stated that it was the feeling of the Connecticut General at this time that they would not go along with a program of increased rates and decreased values. In any event, if they change their mind later, they would not put the new program into effect before January 1, 1935. They felt that financial and business conditions had improved materially in the past two months; that the farm situation was improving, and good bonds could be purchased to net 4% or more.

Laird felt that participating competition was still severe, citing that of the New England Mutual in Boston, the Provident Mutual, Prudential's Modified 3 Contract, and Metropolitan's Special Ordinary Life; he thought that conditions had improved sufficiently to permit nonparticipating agents to work out the more advantageous competitive position that they would have against the majority of participating companies during the next year or two. The point was raised that the larger New York Companies are endeavoring to get the majority of participating companies to adopt more conservative values and, further, that there is some hope that the Metropolitan, Prudential, and Provident Mutual will raise their gross rates at the higher ages. The Connecticut General have stated that if any action such as the latter were taken by the principal participating companies, they would immediately feel that they could go along with increased nonpar rates and decreased values. Because of the small likelihood of such a development, however, the Connecticut General did not think it worth while to go along with the Aetna and Travelers in the preparation of new rates and values.

We submitted to the Aetna a new loading for proposed nonpar rates which would raise the premiums somewhat over those proposed by the Aetna. Our excess loading—although we did not mention it—was to cover the increased cost of continuing the 4% trust agreement for beneficiary funds. Although the Aetna was opposed to this further increase—and the Connecticut General stated they also felt it unnecessary—Cammack is going to study over our proposal more thoroughly and confer again later.

The matter was finally left that we would await the outcome of the next Senior Actuaries' meeting, at which time the participating companies should be able to report the progress which they have been able to make among themselves for higher gross rates at the older ages and higher surrender charges. If anything favorable to the general move occurs at this meeting, the Connecticut General may at that time agree to go along with the Travelers and Aetna in the preparatory work.

(Signed) B. D. F.,
Vice President and Actuary.

BDF:B.

(Copies to Actuary Hammond and Asst. Actuary Hoskins.)

EXHIBIT No. 672

[From files of Travelers Insurance Co.]

[File]

FEBRUARY 27, 1934.

Re Proposed New Program of Life Rates and Values.

President ZACHER,

Vice President HOWARD:

Another meeting of officials of the three local stock companies on the above subject was held this morning at The Travelers.

The Travelers had proposed a modification in the Aetna rate formula which increased rates somewhat to allow for continuation of our "Hundred a Month" 4% trust agreement program. We did not, however, advance this as the reason for the proposed increase. After discussion both the Aetna and Connecticut General agreed to the use of our proposed formula, which was somewhat simpler than that which the Aetna had put forward.

Although the Connecticut General were not prepared at this time to offer any further encouragement as to finally going along with the Aetna-Travelers program, they were agreeable to go ahead with us in the preparation of rates, leaving their decision with regard to preparation of values until after the Senior Actuaries meeting, March 2. After further discussion of the new program as affecting various forms, it was decided to call a conference with those participating com-

panies whose gross rates, in our opinion, should be increased, particularly at the older ages.

A meeting has been called of the Metropolitan, Prudential, and Provident Mutual, with the three local companies in New York, for March 2. In conversation with Mr. Craig, of the Metropolitan, over the phone, it was apparent that the New York companies are ready to report rather definitely in regard to what can be expected in the way of decreased surrender values. It was also apparent from conversation with others that these companies are in a mood to consider modification of gross rates, particularly at the older ages.

Further progress should, therefore, be possible as a result of the meetings to be held Friday, March 2.

(Signed) B. D. F.,
Vice President and Actuary.

BDF:B

(Copies to Actuary Hammond and Assistant Actuary Hoskins.)

EXHIBIT No. 673

[Notation: Mr. Howell's office.]

[Stamped: The Prudential Insurance Company of America.]

FUTURE INTEREST RATE AND THE EFFECT ON PREMIUM RATES

If the rate of interest falls so that the Company receives less interest, it is clear that more premium will be required to make good the Company's contracts. A moderate loss of interest can, of course, be made good by returning less of the premiums collected in the shape of dividends, and using more for the payment of the Company's contractual liabilities. If, however, the loss of interest revenue reaches a point where the additional premium required leaves so slender a margin for dividends that the entire margin might be wiped out for a number of years by some unfavorable experience, it would be proper to increase premium rates so that a reasonable margin for contingencies would still be maintained despite the reduction in interest earnings.

It has been recognized for many years that the tendency to an ever growing annual margin available as new capital was likely to be emphasized by new labor-saving inventions, and that while new demands for capital might for a long period fully keep up with the growing annual margin, an alternative possibility was that the new capital arising from year to year would gradually outstrip the demands therefor.

In recent years certain new factors have been injected into the situation. Among these may be named the desire evinced by very many employers to set up pension plans on a proper reserve basis. In course of time this may lead to the laying by annually of very large sums of money, a substantial part of which will probably represent funds set aside as additional capital which would otherwise have been expended for consumable goods, so that to a quite substantial extent this special form of lay-by would represent an increase in the annual new capital. Notwithstanding the impossibility of establishing adequate and realizable unemployment reserves, it is not unlikely that a number of states will legislate with just this purpose in view, and that to some extent reserves will be set aside, representing again in large part additional new capital.

If the tendency to an increased margin available for lay-by is emphasized by an increased desire to lay-by for certain special objects, it might very well happen that the rate of interest would be forced down solely and steadily by the operation of these factors.

At the present time, however, consideration of the future rate of interest must take into account a new and important factor which has made its appearance within the last twelve months. This new factor is the intervention of the government between borrower and lender with the avowed object of reducing the rate of interest to be paid by the borrower. The extent to which government intervention will eventually proceed is, of course, quite uncertain. At a meeting of representatives of a number of companies last week, the Travelers' representative voiced an opinion on behalf of his company that it was quite possible that lending on mortgage would in the future become almost wholly a Federal government function, the ordinary lenders being limited to purchasing the bonds issued by the Federal government in order to raise funds to make the direct mortgage loans. Whether the matter proceeds to this extreme or not it may be taken for granted that the net result of government intervention is quite likely to be some notice-

able reduction in the interest rate secured on mortgages on real estate, whether made directly or indirectly. A reduction in the rate of interest on mortgages would, of course, be very promptly reflected in the rate of interest which could be secured on investments in bonds. It follows, therefore, that the new factor under discussion may very likely result in at least a moderate reduction in the interest earnings of life-insurance companies as compared with what such earnings would have been without the intervention of the Federal government.

At the meeting referred to, the opinion was unanimous that the possibility of a substantial fall in the course of years in the rate of interest which could be earned by life-insurance companies was a possibility that should be taken into account in considering premium rates for new insurance, as well as other factors of the life insurance business. It is proper to point out that conservatism in the matter of premium rates was felt to be desirable, not because there was any certainty of a sharp reduction in interest earnings, or because such reduction was extremely probable, but merely because such reduction was a definite and not altogether remote possibility, and, therefore, one that if it should materialize should have already been properly provided against.

Among participating companies the Prudential, Metropolitan, and the Provident Mutual have for some years had relatively low rates of premium. While the current rates of premium will probably prove sufficient even though interest fell eventually to as low as 3%, should so great a fall occur margins would become uncomfortably small, and severe mortality or asset losses might, in the absence of normal margins, result in very serious difficulties.

Future possibilities as to interest earnings would alone justify careful consideration of the propriety of an increase in premium rates. But within the last few years, that is since the depression commenced, an additional and quite important factor has entered into the problem. Up to the time of the depression the three large nonparticipating companies domiciled in Hartford had enjoyed very large annual earnings and seemed to be well provided against contingencies. The severe losses of the depression have sharply reduced the surpluses of these companies, and the fall which has already taken place in the interest rate has reduced the normal annual margin very substantially. In the opinion of the two larger companies which raised their rates at certain ages about a year ago, the necessity for a further increase in premiums has become quite acute. They are, however, very much hampered in the matter of premium rates by the fact that the premiums of the three participating companies referred to are so low that a moderate increase in the nonparticipating rates would bring them very close to the participating rates of the companies mentioned, and at some ages even above these rates. From the point of view of this and the other participating companies concerned, therefore, we are in the position, by reason of our present premium rates, of holding down the rates of the nonparticipating companies. If insufficient rates should eventually result in the wrecking of these great nonparticipating companies, a very severe blow would be given to the life-insurance business, so that, for our own protection, it is desirable that our gross rates should not be so low as to make it difficult for the nonparticipating companies to increase their premiums to rates which shall be adequate and still appear less to a reasonable extent than the rates of any responsible participating company.

Because of the reasons outlined above, for some time consideration has been given by the Actuarial department to the possibility of increased premium rates, and now that the year-end work is over, calculations are being made with the object of preparing new rates of premium which it is proposed to recommend for adoption. It is planned to hold additional conferences with the other companies interested, and if possible to synchronize our changes in rates fairly well with those of the other companies. The present memorandum represents a preliminary discussion and an intimation of the extent to which the matter has been carried. It will be followed before very long by a further memorandum with tentative premium rates and information as to the rates likely to be adopted by the other companies interested. In the meantime, it may be noted that Mr. Linton, of the Provident Mutual, is fully convinced of the necessity for an increase in premium rates in the case of his own company.

JAMES F. LITTLE,
Vice President and Actuary.

MARCH 6, 1934.

EXHIBIT No. 674

[Notation: Mr. Howell's office.]

[Stamped: The Prudential Insurance Company of America.]

MEMORANDUM RE ORDINARY PREMIUM RATES

Following conferences with the Actuaries of the Metropolitan Life and the Provident Mutual, we have tentatively decided on schedules of increased Ordinary premium rates as shown in the attached illustrations. These rates are based on net premiums according to the American Men Ultimate Table with interest at $3\frac{1}{4}\%$ plus a suitable addition for the Waiver of Premium Disability benefit.

For all Endowment plans, including the Endowment at Age 85, the loading formula calls for a loading of 10% of the net premium plus 5% of the Whole Life net premium plus \$4. In the case of 20 Payment Life policies the formula is 15% of the net premium plus \$4, plus an additional amount, the accumulation of which will be sufficient to provide for expenses of \$1 per thousand after the policy becomes paid up.

With respect to the Modified 3 plan, since these premiums were increased in December of 1932 a smaller further increase is called for at present. The loading formula is 20% of the net premium plus \$1 on the ultimate premiums and 20% plus 85¢ on the premiums for the first three years. It is important that the initial rate on this plan of policy be not too markedly out of line with the rates of the nonparticipating companies, and in the attached comparison the new rates tentatively decided upon by these companies are shown.

The Modified 5 loading formula is 15% plus \$1.75. The use of this formula results in a decrease in the premium rates as compared to the old premiums at the extreme younger ages and at age 60. This feature is due primarily to the peculiarities of the original rate table, as our analysis indicates that the present rates are abnormally high at these ages.

The rates described above are believed to be reasonably consistent with those tentatively decided upon by the Metropolitan and by the Provident Mutual.

_____, Associate Actuary.

JUNE 12, 1934.

VH: RMJ.

Age	Proposed Rate	Increase Over Present Rate	Disability Cost	Tentative New Non-Par Rate
MODIFIED LIFE 3				
20	\$12.67	\$0.57	\$0.16	
30	17.04	.99	.24	\$17.64
40	24.63	1.30	.39	25.05
50	37.99	1.45	.58	38.08
60	61.17	1.92		61.24

MODIFIED LIFE 5				
20	\$9.01	-\$0.10	\$0.10	
30	11.78	.58	.15	
40	16.70	1.14	.24	
50	25.72	1.55	.36	
60	42.47	-.52		

ENDOWMENT AT AGE 85				
20	\$17.14	\$1.65	\$0.16	
30	21.98	2.07	.24	
40	30.38	2.67	.39	
50	45.18	3.42	.58	
60	71.09	3.26		

Age	Proposed Rate	Increase Over Present Rate	Disabil- ity Cost	Tentative New Non-Par Rate
20-YEAR ENDOWMENT				
20.....	\$46.13	\$2.23	\$0.23	-----
30.....	47.00	2.42	.32	-----
40.....	50.00	2.95	.56	-----
50.....	57.86	3.56	.77	-----
60.....	75.56	3.16	-----	-----
20-PAYMENT LIFE				
20.....	\$25.62	\$2.31	\$0.13	-----
30.....	30.88	2.72	.20	-----
40.....	39.06	3.30	.43	-----
50.....	52.07	3.89	.68	-----
60.....	73.62	3.89	-----	-----

June 12, 1934.
VH:RMJ.

EXHIBIT No. 675

[From files of The Travelers Insurance Co.]

MARCH 7, 1934.

Re Proposed New Program of Life Rates and Values—Conference with Metropolitan, Prudential, and Provident Mutual.

President ZACHER,
Vice President HOWARD:

Officials of the three local nonparticipating companies met with officials of the Metropolitan, Prudential, and Provident Mutual in New York, March 2. Each of the three companies last named has a special contract with initial gross rates lower than our proposed nonparticipating premiums. The Prudential's "Modified 3" and the Provident's "Protector" (Modified 2) carry materially lower gross rates at all ages than our proposed nonpar premiums and the Metropolitan's "Special Ordinary Life" at age 45 and above. (The Phoenix Mutual has a low premium form, but no one seemed to be fearful of that company's competition.)

All factors bearing upon the cost of life insurance were thoroughly discussed, particularly the probable future date of interest. Somewhat to our surprise, we learned that the Prudential are seriously considering an increase in rates and reduction in values. Mr. Little, of the Prudential, stated they would probably change their rates by substituting 3% for $3\frac{1}{2}\%$ in the formula. He was going to arrange his rates so that the company could get by on a rate of interest as low as $2\frac{1}{2}\%$ —if dividends were omitted. Mr. Craig, of the Metropolitan, had been considering changes, but his statements were much less definite. He expected to talk with Mr. Ecker this week and in the course of ten days would have more definite information to report. The Metropolitan, however, will undoubtedly decide to increase its rates and decrease its surrender values soon. Both the Prudential and Metropolitan thought that they could not prepare their manuals so the change could be effective before January 1, 1935.

Mr. Linton, of the Provident Mutual, was away but sent Vice President Marshall, who stated that while he could not commit his company, his personal feeling was that their rates would be increased, including a complete revision and increase in the "Protector" policy premiums. They would also modify surrender values somewhat.

Mr. Little said that the Prudential would probably carry reserves at $3\frac{1}{4}\%$ and then deduct the full \$25 surrender charge throughout the term of contracts. Mr. Craig could not give definite information in regard to their surrender-value program, but he spoke as if the full \$25 would be deducted up to at least the 15th year. He did state, however, that the Metropolitan would probably omit second-year values on life forms, giving only an extended term value at the end of the second year on endowment policies. Mr. Marshall could not state just what change the Provident would make in surrender values, but he felt that they would undoubtedly go along with the other companies.

Mr. Craig stated that the Mutual Life and New York Life were willing to follow the Prudential, Metropolitan, and others in a reduction in surrender values but that the Equitable was standing out for very slight changes. Mr. Little stated that Mr. Duffield would endeavor to see Mr. Parkinson some time this week and try to get the Equitable to be more cooperative. It was felt that if the Equitable did not come along, the New York Life would also decline to make a change.

It is probable that in the course of two weeks, we shall hear more definitely from the Metropolitan, and possibly from the Provident.

(Signed) B. D. F.,
Vice President and Actuary.

BDF:B.

EXHIBIT No. 676

[From files of The Travelers Insurance Co.]

[Copy]

AUGUST 1, 1936.

1936 Life Actuarial Notes.

Subject: 1937 Rate Revision.

Memorandum No. 15.

(18) The above matter was considered at a conference on July 28th attended by—

Aetna Life:

Vice President and Actuary Cammack

Associate Actuary Keffer

Connecticut General:

Actuary Henderson, Assistant Actuary Eddy

Assistant Actuary Hart

The Travelers:

Vice President and Actuary Flynn

Actuary Hammond

Associate Actuary Shepherd

Assistant Actuary Hoskins

(19) At the conference the following points were agreed upon:

Effective date April 1, 1937, and as much earlier as possible for all three companies.

The general basis of rates—90% Graded American Men Select 3½% plus \$2.50, plus commission, plus 1¼% of the gross for taxes.

Retirement Income maturity values—American Annuitants Select Male 3%, ages stepped one year for males and five years for females.

Annual Premium Elective Annuities on the same basis as Retirement Income with accumulations of 3½%. (Travelers and Connecticut General, Aetna does not issue nonparticipating.)

Short Term rates the same as at present with the following increases:

To and including Age 45.....	\$0. 25
Age 46.....	. 20
47.....	. 15
48.....	. 10
49.....	. 05
50 and over.....	. 00

Single Premiums will not be materially changed. At present, single premium rates of the three companies do not quite coincide.

Mr. Hoskins is developing a formula which will produce approximately the present single premium rates on a uniform basis for the three companies.

Surrender Values remain unchanged except as they may be affected by changes in maturity values.

(20) Steps have already been taken to cooperate with the Aetna and Connecticut General. The former Company will furnish the rates on various forms, and the latter Company, the reserves on Retirement Income, upon which The Travelers will calculate the surrender values. Some copy has already been sent to the Print Shop.

(21) The following is taken from the minutes of the Conference prepared by Associate Actuary Shepherd:

GENERAL PREMIUM FORMULA

(22) The first question discussed was the general basis for premium rates, putting aside for the moment the particular questions of term rates and life income forms.

There was a general agreement to substitute a $3\frac{1}{2}\%$ -interest rate in place of the present $3\frac{3}{4}\%$. The Travelers urged an increase in allowance for taxes from $1\frac{1}{4}\%$ to $2\frac{1}{2}\%$, pointing out that our tax rate was already in excess of $1\frac{1}{4}\%$ and steadily increasing.

Mr. Cammack vigorously opposed any increase in the tax allowance or the overhead factor in any form. He contended that while it was true their allowance for taxes was slightly insufficient, the allowance for taxes plus the \$2.50 per \$1,000 for overhead was more than sufficient to cover taxes and expenses combined; the Aetna's overhead did not exceed \$2.00 per \$1,000. A few years back it had been as low as \$1.50. He attributed much of the increase to the decreasing insurance account and was quite hopeful that expenses would drop now that we are showing an increase in our insurance in force again. Mr. Henderson suggested a compromise at $2\frac{1}{4}\%$, but Mr. Cammack opposed any increase.

Mr. Cammack showed prepared tables of cost of insurance in various participating companies on the basis of present dividend scales and contended that we should put ourselves out of the running if we tried to increase rates above the amount required to cover the drop in interest rate. He pointed out that such companies as the New England Mutual and the Phoenix Mutual, which had maintained their low costs, had been able to show gains in insurance when other companies were losing. He thought we might have to increase rates again in another year, but that it was better to increase them a step at a time. We had increased rates nearly 10% over the past few years.

Mr. Flynn brought out the fact that on the basis of Mr. Hoskins' comparison with average net cost of fifteen mutual companies, present nonparticipating rates were relatively better than they had been over the previous ten years.

The final conclusion was to leave the \$2.50 overhead and $1\frac{1}{4}\%$ for taxes unchanged and change the interest rate to $3\frac{1}{2}\%$.

LIFE INCOME FORM

(23) The basis proposed by The Travelers and Connecticut General for maturity values on Retirement Income and similar forms was the American Annuitants Male Select 3%, with the age stepped back one year for males, five years for females. Mr. Cammack was prepared to agree to this proposal, but he offered for consideration an alternative plan which Mr. Keffer advocated. This plan was to leave the regular reserves and values of these forms unchanged, but to provide an additional reserve which would leave the company with total reserves on the basis proposed for policyholders who actually exercise the life-income option. Mr. Keffer calculated an extra premium on the assumption that 50% of the policies issued would continue to maturity and exercise the life-income option. The advantage of this basis would be a lower premium rate than would be required if values were increased. It would save the work of recalculating reserves and values (which, however, everyone agreed should be given no weight in arriving at our decision). It would also have the advantage from the Aetna's viewpoint that it would not necessitate a change in the settlement option basis printed in all their policies. Mr. Cammack was still undecided as to the advisability of this latter move, inasmuch as they had been on a 3%-basis since the first of the year, and the only change involved was the stepping back of one year in age.

It was pointed out that if Mr. Keffer's plan is adopted, the real nature of the change we were making would not be apparent to other companies, and we should not be furnishing an example which we might persuade other companies to follow. It was realized that an increase in values would be of some help to the agent in justifying the increase in premium rates.

The final conclusion was to adopt the 3% basis, age stepped back one year, for a maturity value, and to change values prior to maturity.

TERM RATES

(24) The Connecticut General presented the following extension of their mortality experience on term conversions:

Connecticut General Mortality on Term Conversions, Issues 1922-1935

	No. Deaths	% Amer. Men	
		No.	Amt.
Term—10:			
To 12/31/31.....	336	69	73
12/31/31 to 12/31/35.....	341	79	100
To 12/31/35.....	677	74	86
Term—5:			
To 12/31/31.....	38	91	129
12/31/31 to 12/31/35.....	46	75	89
To 12/31/35.....	84	81	106
Combined:			
To 12/31/31.....	374	71	80
12/31/31 to 12/31/35.....	387	78	98
To 12/31/35.....	761	75	89

Neither the Aetna nor the Connecticut General felt that this indicated a great need for a higher premium to cover higher mortality on short-term plans. Mr. Henderson pointed out that while the experience, and perhaps general reasoning, indicated that the Five Year Term rate should be increased, there was apparently no need for increasing the Ten Year Term rates. It would be necessary, however, to increase the rates to keep them in line with the Five Year Term.

The table below shows Five Year Term rates calculated by different formulae by Mr. Keffer and Mr. Hoskins, compared with present rates:

	Age		
	30	40	50
Present rates.....	8.43	10.60	18.26
Hoskins' rates.....	9.35	11.54	18.79
Keffer's rates.....	8.83	11.11	18.02

Mr. Cammack admitted some weakness in the Five Year Term rates at the younger ages, but felt that the rates were more than adequate at ages 50 and up. The increases in the present Five Year Term rates referred to above were adopted.

(25) It may be interesting to record a comparison of the Connecticut General's experience with The Travelers, although this was not well brought out in the discussion.

The last comparison we had with the Connecticut General included exposures only through 1931. The addition of their experience through anniversaries in 1935 increases their ratios perceptibly. Unfortunately for comparison, the bulk of their experience is on the Ten Year Term form. Only 84 deaths are recorded under the Five Year Term. The Connecticut General's figures are on the American Men basis. As compared with the Connecticut General's 81%-106% on the Five Year Term, the Travelers had an experience on issues of 1923 and subsequent years, exposed through 1934, of 108%-124% of the Travelers Table, or 88%-101% on the American Men basis, indicating that the Connecticut General's experience was a trifle lower by policies and higher by amounts than the Travelers.

As compared with the Connecticut General's 74%-86% on the Ten Year Term, the Travelers experience on the Travelers Table for all term forms other than Five Year Term was 103%-127% of the Travelers Table, or 87%-103% on the American Men basis, which is much higher than the Connecticut General's mortality covering 677 deaths as compared with 584 deaths in our experience.

The wide spread between the mortality by amounts and the mortality by numbers seems to be evidence of adverse selection. Mr. Cammack argued that the ratio of 89% on both term forms combined was within the mortality assumed in

our premium rates. Mr. Hoskins pointed out that this is probably not the case if we take into account the younger ages at which term insurance is issued and the comparative immaturity of exposure.

H. PIERSON HAMMOND.

HPH:O.

Additional Routing.

Vice President Howard.

Miss Burke.

Source: 1935-1936 Life Actuarial Notes.

EXHIBIT No. 677

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Comparative gross aggregate premium costs, cash values, and net aggregate premium costs, over ten-year period, under nonparticipating policies of Aetna Life, Connecticut General, and Travelers Insurance Companies

[Ordinary Life Form, Age 35]

	Just Prior to 4/1/33			Effective ¹ 4/1/33	Effective ¹ 1/1/35	Effective ¹ 3/1/37
	Aetna	Conn. Genl.	Travelers			
Ordinary Life—Age 35:						
Premiums—10 years.....	\$197.10	\$197.10	\$197.10	\$200.60	\$208.20	\$214.20
Cash Value—End of 10th year.....	125.00	135.00	128.00	111.00	111.00	111.00
Difference—Net Cost.....	72.10	62.10	69.10	89.60	97.20	103.20

¹ Gross premiums and tenth-year cash values were the same for the three companies.

Source: Little Gem Life Chart, published by National Underwriter, and Best's Illustrations.

“EXHIBIT No. 678” appears in the appendix to Hearings, Part VI, p. 2748

EXHIBIT No. 679

Statement showing the volume of the ordinary business¹ of Aetna Life, Conn. General, and Travelers

	1934	1937	1938
All Ordinary Business:			
Total written in larger U. S. Cos.....	\$7,419,290,558		\$7,182,309,555
Total written in Aetna, Conn. Genl., and Trav.....	470,553,748		457,094,951
% written in Aetna, Conn. Genl., and Trav.....	6.3%		6.4%
Non-Participating Ordinary Business only:			
Total written in larger U. S. Cos.....	1,335,025,678		1,872,360,193
Total written in Aetna, Conn. Genl., and Trav.....	433,906,311		411,873,521
% written in Aetna, Conn. Genl., and Trav.....	32.5%		22.0%
Total in force (Dec. 31) in larger U. S. Cos.....		\$14,752,073,927	
Total in force in Aetna, Conn. Genl., and Trav.....		4,988,818,620	
% in force in Aetna, Conn. Genl., and Trav.....		33.8%	

¹ Exclusive of group insurance.

² If Canadian Companies were included—and many do a large volume of business in the United States—this percentage would be 31.6%.

Source: 1934 and 1938 figures, *Flightcraft Compend*, 1935 and 1939; 1937 figures, *Unique Manual-Digest*, 1938. Prepared by Aetna Life, Conn. General, and Travelers.

EXHIBIT No. 680

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

*Life Insurance: Total in Force, New Business & Terminations U. S. Legal Reserve
Life Insurance Companies 1928-1937*

Year	In Force at Beginning of Year Dec. 31 ¹	New Business Written During Year	Terminations During Year	In Force at the End of Year ¹	Number of Companies Reporting
1928.....	\$87,022,103,424	\$18,673,574,996	\$10,111,858,568	\$95,583,819,852	331
1929.....	95,206,314,691	19,267,332,211	11,064,503,966	103,409,142,936	353
1930.....	103,146,440,473	19,019,790,453	13,912,494,179	108,253,736,747	352
1931.....	107,948,277,732	17,226,248,427	15,870,864,610	109,303,661,549	342
1932.....	108,885,562,894	14,514,284,427	19,740,382,133	103,659,465,188	328
1933.....	103,154,370,056	13,786,857,459	16,923,169,167	100,018,058,348	318
1934.....	97,985,043,747	14,280,080,058	13,699,352,147	98,565,771,658	313
1935.....	98,542,411,146	14,138,619,347	11,952,666,608	100,728,363,885	340
1936.....	100,730,415,016	14,334,996,379	10,207,434,085	104,857,977,310	315
1937.....	104,667,205,924	14,795,949,978	9,693,972,980	109,769,182,922	308
10-year total.....	-----	160,037,733,735	133,176,698,443	-----	-----

¹ The amount of insurance in force at the end of any year is found by subtracting the amount of insurance terminated during the year from the amount of insurance in force at the beginning of the year, plus amounts of insurance written during the year. Because the number of companies reporting to Spectator changes each year the amounts of insurance in force at the beginning of any year vary slightly from the amounts of insurance in force at the end of the year preceding. Inasmuch as the great proportion of the business is written by companies which do report to Spectator each year, the essential accuracy of the above figures is not impaired.

Source: Spectator Insurance Year Books.

EXHIBIT No. 681

American Experience Table of Mortality

Age	Number Living	Deaths Each Year	Death Rate Per 1,000	Expecta- tion of Life	Age	Number Living	Deaths Each Year	Death Rate Per 1,000	Expecta- tion of Life
10.....	100,000	749	7.49	48.72	53.....	66,797	1,091	16.33	18.79
11.....	99,251	746	7.52	48.08	54.....	65,706	1,143	17.40	18.09
12.....	98,505	743	7.54	47.45	55.....	64,563	1,199	18.57	17.40
13.....	97,762	740	7.57	46.80	56.....	63,364	1,260	19.88	16.72
14.....	97,022	737	7.60	46.16	57.....	62,104	1,325	21.33	16.05
15.....	96,285	735	7.63	45.50	58.....	60,779	1,394	22.94	15.39
16.....	95,550	732	7.66	44.85	59.....	59,385	1,468	24.72	14.74
17.....	94,818	729	7.69	44.19	60.....	57,917	1,546	26.69	14.10
18.....	94,089	727	7.73	43.53	61.....	56,371	1,628	28.88	13.47
19.....	93,362	725	7.76	42.87	62.....	54,743	1,713	31.29	12.86
20.....	92,637	723	7.80	42.20	63.....	53,030	1,800	33.94	12.26
21.....	91,914	722	7.85	41.53	64.....	51,230	1,889	35.87	11.67
22.....	91,192	721	7.91	40.85	65.....	49,341	1,980	40.13	11.10
23.....	90,471	720	7.96	40.17	66.....	47,361	2,070	43.71	10.54
24.....	89,751	719	8.01	39.49	67.....	45,291	2,158	47.65	10.00
25.....	89,032	718	8.06	38.81	68.....	43,133	2,243	52.00	9.47
26.....	88,314	718	8.13	38.12	69.....	40,890	2,321	56.76	8.97
27.....	87,596	718	8.20	37.43	70.....	38,569	2,391	61.99	8.48
28.....	86,878	718	8.26	36.73	71.....	36,178	2,448	67.66	8.00
29.....	86,160	719	8.34	36.03	72.....	33,730	2,487	73.73	7.55
30.....	85,441	720	8.43	35.33	73.....	31,243	2,505	80.18	7.11
31.....	84,721	721	8.51	34.63	74.....	29,738	2,501	87.03	6.68
32.....	84,000	723	8.61	33.92	75.....	26,237	2,476	94.37	6.27
33.....	83,277	726	8.72	33.21	76.....	23,761	2,431	102.31	5.88
34.....	82,551	729	8.83	32.50	77.....	21,330	2,369	111.06	5.49
35.....	81,822	732	8.95	31.78	78.....	18,961	2,291	120.83	5.11
36.....	81,090	737	9.09	31.07	79.....	16,670	2,196	131.73	4.74
37.....	80,353	742	9.23	30.35	80.....	14,474	2,091	144.47	4.39
38.....	79,611	749	9.41	29.62	81.....	12,383	1,964	158.60	4.05
39.....	78,862	756	9.59	28.90	82.....	10,419	1,816	174.30	3.71

American Experience Table of Mortality—Continued

Age	Number Living	Deaths Each Year	Death Rate Per 1,000	Expectation of Life	Age	Number Living	Deaths Each Year	Death Rate Per 1,000	Expectation of Life
40.....	78,106	765	9.79	28.18	83.....	8,603	1,648	191.56	3.39
41.....	77,341	774	10.01	27.45	84.....	6,955	1,470	211.36	3.08
42.....	76,567	785	10.25	26.72	85.....	5,485	1,292	235.55	2.77
43.....	75,782	797	10.52	26.00	86.....	4,193	1,114	265.68	2.47
44.....	74,985	812	10.83	25.27	87.....	3,079	933	303.02	2.18
45.....	74,173	828	11.16	24.54	88.....	2,146	744	346.69	1.91
46.....	73,345	848	11.56	23.81	89.....	1,402	555	395.86	1.66
47.....	72,497	870	12.00	23.08	90.....	847	385	454.54	1.42
48.....	71,627	896	12.51	22.33	91.....	462	246	532.47	1.19
49.....	70,731	927	13.11	21.63	92.....	216	137	634.26	.98
50.....	69,804	962	13.78	20.91	93.....	79	58	734.18	.80
51.....	68,842	1,001	14.54	20.20	94.....	21	18	857.14	.64
52.....	67,841	1,044	15.39	19.49	95.....	3	3	1,000.00	.50

Source: Page 200 *Life Insurance* by John H. Magee. Business Publications, Inc., Chicago, Ill., 1939.

EXHIBIT No. 682

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

[Chart based on following statistical data appears in text on p. 4286-a]

Whole Life Policy (\$1,000) Age 35

Attained Age at Beginning of Year	Annual Net Level Premium for \$1,000	Annual Cost of Insurance for \$1,000 ¹	Tabular Cost of Insurance for Amount at Risk	Reserve at End of Year	Amount at Risk	Sum of Reserve and Amount at Risk
35.....	\$21.08	\$8.95	\$8.84	\$12.88	\$987.12	\$1,000.00
39.....	21.08	9.59	8.94	68.16	931.84	1,000.00
44.....	21.08	10.83	9.25	146.01	853.99	1,000.00
49.....	21.08	13.11	10.05	233.28	766.72	1,000.00
54.....	21.08	17.40	11.70	327.58	672.42	1,000.00
59.....	21.08	24.72	14.20	425.49	574.51	1,000.00
64.....	21.08	36.87	17.59	522.92	477.08	1,000.00
69.....	21.08	56.76	21.85	615.14	384.86	1,000.00
74.....	21.08	87.03	26.27	698.21	301.79	1,000.00
79.....	21.08	131.73	29.73	774.29	225.71	1,000.00
84.....	21.08	211.36	32.97	844.01	155.99	1,000.00
89.....	21.08	395.86	37.37	905.59	94.41	1,000.00
94.....	21.08	857.14	43.04	949.79	50.21	1,000.00

¹ It is assumed that no interest will be earned on the premiums paid each year.

Based on American Experience Table, 3%.

EXHIBIT No. 683

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

[Chart based on following statistical data appears in text on p. 4293-a]

Terminations—Ordinary Life Insurance—Amounts, 1922-1937

[All companies, in thousands of dollars]

Year	Lapse	Surrender	Decrease	Expiry	Disability	Maturity	Death	Total Terminations
1922	2,136,701	803,610	288,728	305,207	2,202	138,902	298,895	3,074,247
1923	1,958,100	844,227	236,211	374,494	5,272	124,432	328,389	3,871,125
1924	2,396,591	905,657	305,643	454,141	9,923	125,182	352,132	4,549,269
1925	2,516,876	966,820	277,421	482,944	5,305	101,597	381,955	4,732,920
1926	2,946,564	1,117,643	318,952	519,143	2,901	85,792	443,004	5,434,000
1927	3,442,959	1,360,182	347,997	562,503	3,761	76,420	477,444	6,271,272
1928	3,339,150	1,445,859	319,854	628,608	4,287	77,561	547,838	6,363,157
1929	3,694,413	1,716,939	315,506	718,504	6,263	93,118	624,375	7,159,118
1930	4,405,311	2,150,329	419,535	876,554	9,565	97,867	678,794	8,637,956
1931	4,770,696	2,884,158	542,544	1,068,017	7,065	106,836	732,128	10,113,443
1932	4,929,966	4,430,228	722,923	1,376,210	10,167	110,118	723,375	12,302,995
1933	3,816,833	4,394,233	815,074	1,578,603	9,939	107,502	697,532	11,419,716
1934	2,933,957	3,203,668	572,669	1,338,823	24,911	109,621	684,509	8,868,158
1935	2,746,155	2,347,591	460,625	1,071,674	7,661	116,863	675,288	7,425,857
1936	2,306,005	1,739,919	352,381	867,814	7,562	125,916	706,813	6,106,409
1937	2,247,579	1,510,575	302,012	761,283	5,608	124,455	707,983	5,659,496
TOTALS								
1922-1925	9,008,268	3,520,314	1,108,003	1,616,786	22,702	490,113	1,361,371	17,127,561
1926-1929	13,413,086	5,640,629	1,302,309	2,428,758	17,212	332,891	2,092,661	25,227,547
1930-1933	17,922,806	13,860,948	2,500,076	4,899,390	36,736	422,323	2,831,829	42,474,110
1934-1937	10,233,696	8,801,753	1,687,687	4,039,594	45,742	476,855	2,774,593	28,059,920
PERCENTAGES								
1922-1925	52.59	20.55	6.46	9.43	.13	2.86	7.94	100
1926-1929	53.16	22.35	5.16	9.62	.06	1.31	8.29	100
1930-1933	42.19	32.63	5.88	11.53	.08	.99	6.66	100
1934-1937	36.47	31.36	6.01	14.39	.16	1.69	9.88	100

Source: Spectator Insurance Year Books.

Terminations—Industrial Life Insurance—Amounts, 1922-1937

[All companies, in thousands of dollars]

Year	Lapse	Surrender	Decrease	Expiry	Dis- ability	Matur- ity	Death	Total Termini- nations
1922-----	1, 135, 518	96, 560	53, 872	39, 355	42	20, 918	71, 128	1, 417, 393
1923-----	1, 161, 428	80, 907	0, 038	42, 676	12	16, 460	80, 457	1, 390, 978
1924-----	1, 500, 807	109, 725	12, 325	40, 397	19	11, 949	91, 855	1, 767, 077
1925-----	1, 871, 320	142, 591	19, 994	42, 423	36	11, 752	104, 969	2, 193, 086
1926-----	2, 184, 156	178, 428	70, 987	54, 263	54	11, 149	146, 247	2, 645, 283
1927-----	2, 583, 193	238, 116	55, 420	47, 751	65	10, 848	126, 550	3, 061, 944
1928-----	2, 761, 957	340, 582	68, 816	81, 132	69	11, 294	162, 228	3, 426, 078
1929-----	2, 777, 160	383, 890	72, 589	83, 261	98	12, 474	158, 311	3, 487, 783
1930-----	3, 503, 555	597, 684	138, 285	80, 209	89	12, 831	157, 572	4, 490, 225
1931-----	3, 586, 846	824, 937	117, 407	79, 615	109	12, 875	159, 079	4, 780, 869
1932-----	4, 187, 937	1, 261, 672	112, 291	82, 104	137	13, 059	153, 755	5, 810, 955
1933-----	3, 367, 035	1, 147, 972	27, 217	92, 617	121	13, 083	148, 863	4, 796, 907
1934-----	3, 127, 574	983, 691	15, 190	127, 340	128	20, 570	153, 570	4, 428, 063
1935-----	2, 534, 097	944, 984	12, 686	411, 849	53	28, 814	153, 720	4, 086, 203
1936-----	2, 224, 747	815, 249	10, 404	450, 108	64	27, 951	160, 284	3, 688, 809
1937-----	2, 136, 661	807, 049	9, 009	473, 441	101	30, 544	167, 536	3, 624, 391
TOTALS								
1922-1925-----	5, 669, 073	429, 783	95, 229	164, 851	109	61, 079	348, 409	6, 768, 534
1926-1929-----	10, 306, 466	1, 141, 016	267, 812	230, 407	286	45, 765	593, 336	12, 621, 088
1930-1933-----	14, 645, 373	3, 832, 265	395, 200	334, 545	456	51, 848	619, 269	19, 878, 956
1934-1937-----	10, 023, 079	3, 550, 973	47, 289	1, 462, 738	346	107, 879	635, 160	15, 827, 466
PERCENTAGES								
1922-1925-----	83. 75	6. 34	1. 4	2. 43	.001	.90	5. 14	100
1926-1929-----	81. 66	9. 04	2. 12	2. 11	.002	.36	4. 7	100
1930-1933-----	73. 67	19. 27	1. 98	1. 68	.002	.26	3. 11	100
1934-1937-----	63. 32	22. 43	. 29	9. 24	.002	.68	4. 01	100

¹ The increase in expiry is due to changes in industrial policy provisions, made by certain companies beginning in 1935, whereby automatic extended term insurance was allowed upon discontinuance of premium payments early in the life of the policy.

Source: Spectator Insurance Year Books.

NOTE.—The Spectator Year Books for some of the years included above listed several thousand industrial policies as terminated by "change." For the purposes of this study the word "termination" has been defined to mean the cessation of all enforceable legal relations between policyholder and company. Hence "increase" or "decrease," resulting in "change," cannot constitute a mode of termination of a policy. (When dealing with amounts of insurance, a decrease is a form of termination for the reason that a portion of the insurance is canceled.) However, the figures used for total annual terminations in this table, taken directly from the Spectator Year Books, do include those policies listed as "changed" therein. The figures for aggregate terminations for the 10-year periods, on which the charts were based, do not include any policies "changed."

EXHIBIT No. 684

[Chart based on following statistical data appears in text on p. 4300.]

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

Terminations—Ordinary and Industrial Life Insurance¹—Amounts—Compared With Total New Business and Insurance in Force, 1918–1937

[All companies, in millions of dollars]

Year	Terminations								New business		Insurance In Force ²
	Lapse	Sur-render	De-crease	Ex-piry	Disa-bility	Ma-turity	Death	Total	Re-ceived	New Issues ²	
1918-----	1,270	357	44	193	-----	81	403	2,348	281	5,138	27,189 ² (1/1/18).
1919-----	1,412	388	73	199	-----	102	327	2,501	332	7,810	
1920-----	1,957	428	139	228	1	124	340	3,217	512	10,105	
1921-----	3,428	639	145	325	r 2	130	365	5,025	583	8,578	
1922-----	3,272	900	343	345	r 2	160	370	5,392	684	9,428	
1923-----	3,120	925	245	417	r 5	141	409	5,262	603	11,227	
1924-----	3,897	1,015	318	495	10	137	444	6,316	721	12,345	
1925-----	4,388	1,110	297	525	6	113	487	6,926	823	14,219	
1926-----	5,131	1,296	390	573	3	97	589	8,079	855	15,093	
1927-----	6,026	1,599	403	610	4	87	604	9,333	1,049	15,869	80,592 (12/31/27).
1928-----	6,101	1,786	389	710	4	89	710	9,789	1,079	16,763	80,592 (1/1/28).
1929-----	6,460	2,101	388	802	7	106	783	10,647	1,056	17,695	
1930-----	7,909	2,748	558	957	9	111	836	13,128	1,266	17,464	
1931-----	8,358	3,711	660	1,147	7	120	891	14,894	1,258	16,168	
1932-----	9,118	5,692	835	1,458	10	123	877	18,113	1,566	13,704	
1933-----	7,184	5,542	842	1,671	10	121	846	16,216	1,432	12,966	
1934-----	6,062	4,187	588	1,466	25	130	838	13,296	1,167	13,193	
1935-----	5,281	3,292	473	1,483	8	146	829	11,512	935	12,836	
1936-----	4,531	2,555	363	1,317	8	154	867	9,795	838	12,927	
1937-----	4,384	2,318	311	1,235	6	155	876	9,285	717	12,935	96,662 (12/31/37).
<i>Total:</i>											
1918–1927--	33,901	8,648	2,397	3,910	33	1,172	4,338	54,399	6,443	109,812	
1928–1937--	65,388	33,932	5,407	12,246	94	1,255	8,353	126,675	11,311	146,656	
<i>Percentages:</i>											
1918–1927--	62.32	15.90	4.41	7.19	.06	2.15	7.97	100.00	5.87	94.13	
1928–1937--	51.62	26.79	4.27	9.67	.07	.99	6.59	100.00	7.72	92.28	

¹ Group insurance not included.² New issues, including revivals, increases, and dividend additions.

³ The amount of insurance in force at the end of any period is found by subtracting the amount of insurance terminated during the period from the amount of insurance in force at the beginning of the period, plus amounts of insurance written during the period. Because the number of companies reporting to Spectator changes each year, the amounts of insurance in force at the end of any period do not exactly equal the sum of total new issues and insurance in force at the beginning of the period, minus terminations. Inasmuch as the great proportion of the business is written by companies which do report to Spectator each year, the essential accuracy of the above figures is not impaired.

Source: Spectator Insurance Year Books.

EXHIBIT No. 685

[Prepared by Securities and Exchange Commission Insurance Study Staff]

[Chart based on following statistical data appears in text on p. 4305.]

Terminations—Industrial Life Insurance—Number of Policies—Compared with Number of Policies in Force, New Policies Issued and Revivals*

Year	Lapse	Surrender	Expiry	Disability	Maturity	Death	Total terminations	Policies Revived	New Policies Issued Plus Policies Revived	Policies In Force
1918.....	3, 619, 475	195, 760	80, 072	-----	33, 070	654, 240	4, 582, 618	1, 157, 906	8, 049, 279	38, 763, 599
1919.....	4, 281, 828	245, 235	101, 346	-----	49, 353	502, 550	5, 315, 555	1, 310, 540	9, 019, 851	-----
1920.....	4, 237, 984	256, 566	111, 120	-----	220, 138	498, 453	5, 350, 241	1, 200, 122	9, 312, 609	-----
1921.....	6, 730, 490	463, 086	155, 763	2	33, 715	472, 328	7, 874, 383	1, 833, 302	10, 967, 871	-----
1922.....	6, 397, 221	618, 309	155, 068	130	198, 878	527, 903	8, 241, 966	2, 120, 013	12, 244, 228	-----
1923.....	6, 448, 484	690, 512	157, 733	148	170, 332	604, 472	7, 912, 812	1, 518, 030	13, 086, 424	-----
1924.....	8, 200, 104	664, 091	167, 802	543	120, 102	621, 393	9, 593, 728	1, 770, 689	14, 183, 242	-----
1925.....	9, 620, 810	860, 810	169, 406	227	129, 666	682, 251	11, 062, 089	2, 165, 649	16, 425, 427	-----
1926.....	9, 431, 963	1, 073, 588	334, 190	273	126, 349	925, 839	12, 132, 920	1, 819, 384	16, 563, 270	-----
1927.....	11, 251, 274	1, 414, 941	202, 425	319	128, 975	752, 781	13, 791, 710	2, 175, 264	17, 901, 562	82, 246, 402
1928.....	12, 323, 857	1, 895, 071	204, 641	378	130, 520	938, 734	15, 466, 918	2, 532, 012	18, 931, 303	-----
1929.....	11, 937, 580	2, 143, 886	220, 414	362	139, 181	873, 712	15, 346, 174	2, 154, 593	18, 922, 274	-----
1930.....	14, 318, 584	3, 329, 101	221, 374	280	131, 202	892, 911	18, 923, 461	2, 869, 302	18, 823, 306	-----
1931.....	17, 427, 306	4, 351, 041	219, 964	154	123, 812	862, 919	20, 507, 177	2, 855, 764	19, 412, 801	-----
1932.....	17, 445, 401	6, 440, 351	266, 259	343	130, 768	803, 474	23, 091, 172	3, 766, 717	19, 738, 232	-----
1933.....	14, 965, 306	5, 213, 783	274, 742	308	123, 145	772, 539	21, 367, 459	3, 407, 941	20, 685, 187	-----
1934.....	14, 336, 303	4, 264, 083	352, 524	429	194, 171	796, 030	19, 977, 779	2, 617, 593	19, 531, 166	-----
1935.....	11, 510, 258	4, 029, 641	1, 479, 352	125	247, 858	787, 483	18, 080, 081	1, 939, 900	19, 530, 011	-----
1936.....	10, 636, 129	3, 343, 101	1, 632, 808	157	244, 869	815, 722	16, 687, 452	1, 709, 718	18, 517, 369	-----
1937.....	10, 245, 537	3, 394, 393	1, 628, 505	240	285, 081	829, 808	15, 396, 785	1, 628, 289	18, 517, 369	88, 881, 442
Totals:	63, 637, 335	6, 282, 898	1, 602, 404	1, 642	1, 270, 578	6, 242, 300	85, 057, 157	16, 990, 899	127, 753, 763	-----
1918-1927.....	132, 708, 931	38, 434, 951	6, 530, 589	2, 776	1, 730, 227	8, 353, 332	187, 760, 806	25, 481, 829	193, 714, 338	-----
Percentages:	81.90	7.39	1.88	.002	1.49	7.34	100	-----	-----	-----
1918-1927.....	70.68	20.47	3.48	.002	.92	4.45	100	-----	-----	-----

* The increase in expiry is due to changes in industrial policy provisions made by certain companies beginning in 1935, whereby automatic extended term insurance was allowed upon discontinuance of premium payments early in the life of the policy.

Source: Spectator Insurance Year Books.

NOTE.—The number of policies in force at the end of any period is found by subtracting the number terminated during the period from the number in force at the beginning of the period, plus the number written during the period. Because the number of companies reported in Spectator frequently changes, the number of policies in force at the end of any period does not exactly equal the sum of total new policies issued and the number in force at the beginning of the period, minus the number terminated. Inasmuch as the great proportion of the business is written by companies which are reported in Spectator each year, the essential accuracy of the figures is not impaired.

* See also "Exhibit No. 949," Hearings, Part XII, appendix, p. 6171.

EXHIBIT No. 686

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial insurance—Termination experience of seven companies, 1924-1928; 1929-1933; 1934-1938

[Amounts of Insurance in Thousands of Dollars]

Mode of termination	Metropolitan Life Insurance Company		Prudential Insurance Company of America		Western & Southern Life Insurance Co.		Life Insurance Co. of Virginia		Equitable D. C.		Washington National		Peoples D. C.	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount ¹	Percent	Amount	Percent
1924-1928														
Death.....	223,162	5.88	220,420	5.93	16,557	2.71	9,341	4.41	1,022	1.86	427	1.22	2,231	1.23
Maturity.....	48,179	1.27	2,300	.06	1,860	.30	995	.44	47	.09				
Disability.....			107											
Expiry.....	14,047	.37	205,779	5.54	132	.02	8	.004			2	.01		
Surrender.....	331,085	8.72	435,431	11.71	9,244	1.51	22,940	10.83	1,431	2.64	4	.01	50	.03
Lapse.....	2,905,066	76.48	2,835,324	76.26	574,913	88.23	176,133	83.13	50,627	92.08	34,468	98.40	178,764	98.74
Decrease.....	276,671	7.28	18,453	.50	8,823	1.44	2,518	1.19	1,836	3.33	126	.36		
Total.....	3,798,210	100.00	3,717,814	100.00	611,529	100.00	211,892	100.00	54,983	100.00	35,027	100.00	181,075	100.00
1929-1933														
Death.....	301,131	4.23	288,749	4.12	22,026	2.26	12,836	3.16	1,464	1.79	1,388	.96	3,010	1.18
Maturity.....	37,661	.53	16,657	.24	2,858	.29	772	.19	180	.22				
Disability.....														
Expiry.....	18,683	.26	343,884	4.90	257	.03	27	.01	1	.001	305	.21		
Surrender.....	1,640,512	23.04	1,820,673	25.95	53,926	6.54	69,404	17.08	6,590	8.05	120	.08	386	.15
Lapse.....	4,180,200	58.72	4,301,669	64.18	852,590	87.52	330,913	78.96	67,176	82.04	138,719	95.77	251,996	98.67
Decrease.....	940,879	13.22	42,135	.60	52,552	5.39	2,430	.60	6,475	7.90	4,310	2.98		
Total.....	7,119,056	100.00	7,014,076	100.00	974,209	100.00	406,422	100.00	81,886	100.00	144,842	100.00	255,392	100.00
1934-1938														
Death.....	307,722	5.49	283,623	5.32	21,395	4.81	11,702	3.44	1,670	1.73	1,840	1.11	3,662	1.47
Maturity.....	83,905	1.50	54,284	1.02	2,652	.60	944	.23	403	.42	5	.5	34	.01
Disability.....			242	.01										
Expiry.....	87,345	1.66	1,762,707	33.05	61,077	13.73	4,689	1.38			1,776	1.07		
Surrender.....	1,888,034	33.66	2,008,977	37.67	72,881	16.37	51,362	15.10	9,061	9.38	687	.42	2,775	1.12
Lapse.....	2,821,409	50.31	1,290,118	22.50	267,723	60.18	270,831	79.65	82,069	84.94	160,411	96.80	241,761	97.31
Decrease.....	419,619	7.48	22,973	.43	19,213	4.32	487	.15	3,417	3.53	996	.60	217	.09
Total.....	5,608,034	100.00	5,332,924	100.00	444,891	100.00	340,035	100.00	96,620	100.00	165,710	100.00	248,449	100.00

¹ 1928-1928, Inclusive.

Sources: New York Insurance Reports, 1938 Reports of each Company, and Spectator Insurance Year Books.

EXHIBIT No. 687

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Net Gains or Losses From Surrendered and Lapsed Policies Ordinary and Industrial

For Year	No. of Companies	Net Gain (+) or Loss (-)	For Year	No. of Companies	Net Gain (+) or Loss (-)
1918.....	144	+\$15,043,730	1928.....	222	+\$74,788,313
1919.....	165	+15,621,459	1929.....	250	+96,049,632
1920.....	203	+16,669,760	1930.....	263	+98,112,045
1921.....	209	+39,981,608	1931.....	265	+112,340,400
1922.....	205	+40,937,652	1932.....	253	+150,888,263
1923.....	210	+35,524,619	1933.....	283	+119,462,155
1924.....	228	+46,104,741	1934.....	271	+84,754,507
1925.....	226	+49,824,940	1935.....	262	+73,927,300
1926.....	221	+60,635,081	1936.....	269	+67,829,724
1927.....	218	+65,066,835	1937.....	250	+64,880,425
Total 1918-27.....		385,410,425	Total 1918-37.....		1,328,443,189

Source: Spectator Year Books—Gains and Loss Exhibits—Totals.

EXHIBIT No. 688

[Prepared by Equitable Life Insurance Co.]

Equitable Life Insurance Company, Washington, D. C.—Terminations, January through March 1939—Industrial Insurance

Premiums paid for— 1	All Terminations		Involuntary Terminations (Death and Maturity)		Voluntary Terminations (All Others)		Accumulated Percents of Voluntary Terminations	
	No.	Prem.	No.	Prem.	No.	Prem.	No.	Prem.
2	3	4	5	6	7	8	9	
1 Week.....	2,102	\$478.22			2,102	\$478.22	%	%
2 Weeks.....	859	183.74			859	183.74	11.9	13.6
3 Weeks.....	461	99.10	2	\$0.36	450	98.74		
4 Weeks.....	525	108.19	7	1.62	518	106.57		
5 Weeks.....	459	99.00	1	.10	458	98.90	24.9	27.5
6 Weeks.....	372	77.79	3	.85	369	76.94		
7 Weeks.....	371	71.68	4	.54	367	71.14		
8 Weeks.....	339	67.96	3	.45	336	67.51		
9 Weeks.....	253	62.61	3	.68	250	51.93		
10 Weeks.....	284	64.28	3	.65	281	63.63	34.0	36.7
11 Weeks.....	285	55.76	2	.35	283	55.41		
12 Weeks.....	226	42.20	2	.47	224	41.73		
13 Weeks.....	213	42.51	2	.20	211	42.31		
14 Weeks.....	244	44.78	2	.20	242	44.58		
15 Weeks.....	210	39.79	1	.57	209	39.22	40.6	42.8
16 Weeks.....	196	40.15	3	.63	193	39.52		
17 Weeks.....	162	33.85	3	.67	159	33.18		
18 Weeks.....	124	26.37	1	.27	123	26.10		
19 Weeks.....	191	32.48	1	.10	190	32.38		
20 Weeks.....	125	22.74	1	.40	124	22.34	45.1	47.4
21 Weeks.....	136	27.40			136	27.40		
22 Weeks.....	124	22.83	1	.07	123	22.76		
23 Weeks.....	114	23.57			114	23.57		
24 Weeks.....	101	18.87	1	.10	100	18.77		
25 Weeks.....	111	20.89	1	.15	110	20.74	48.4	50.6
26 Weeks.....	85	18.08	1	.25	84	17.83		
27 Weeks.....	145	25.93			145	25.93		
28 Weeks.....	106	23.37			106	23.37		
29 Weeks.....	137	24.41	4	.60	133	23.81		
30 Weeks.....	97	17.81	2	.55	95	17.26	51.6	53.7
31 Weeks.....	104	18.14	1	.25	103	17.89		
32 Weeks.....	133	24.77			133	24.77		
33 Weeks.....	99	17.93	2	.57	97	17.36		
34 Weeks.....	87	16.08	2	.50	85	15.58		
35 Weeks.....	87	17.25	3	.35	84	16.90	54.4	56.4

Equitable Life Insurance Company, Washington, D. C.—Terminations, January through March 1939—Industrial Insurance—Continued

Premiums paid for— 1	All Terminations		Involuntary Terminations (Death and Maturity)		Voluntary Terminations (All Others)		Accumulated Percent of Voluntary Terminations	
	No. 2	Prem. 3	No. 4	Prem. 5	No. 6	Prem. 7	No. 8	Prem. 9
36 Weeks.....	87	\$17.51	-----	-----	87	\$17.51	%	%
37 Weeks.....	81	14.74	1	\$0.25	80	14.49	-----	-----
38 Weeks.....	86	16.06	-----	-----	86	16.06	-----	-----
39 Weeks.....	78	16.18	-----	-----	78	16.18	-----	-----
40 Weeks.....	71	13.30	2	.20	69	13.10	56.7	58.6
41 Weeks.....	93	19.15	2	.20	91	18.95	-----	-----
42 Weeks.....	64	12.40	-----	-----	64	12.40	-----	-----
43 Weeks.....	71	14.93	-----	-----	71	14.93	-----	-----
44 Weeks.....	68	13.65	1	.25	67	13.40	-----	-----
45 Weeks.....	50	7.69	-----	-----	50	7.69	58.6	60.5
46 Weeks.....	51	9.11	1	.25	50	8.86	-----	-----
47 Weeks.....	49	10.35	-----	-----	49	10.35	-----	-----
48 Weeks.....	62	11.37	-----	-----	62	11.37	-----	-----
49 Weeks.....	49	7.95	-----	-----	49	7.95	-----	-----
50 Weeks.....	47	8.71	2	.35	45	8.36	60.1	61.8
51 Weeks.....	32	7.23	-----	-----	32	7.23	60.2	62.0
1 Year.....	1,700	333.58	29	7.65	1,671	325.03	69.7	71.3
2 Years.....	970	185.15	32	7.41	938	177.74	75.0	76.4
3 Years.....	841	163.01	29	8.30	812	154.71	79.6	80.8
4 Years.....	569	109.53	19	4.84	550	104.69	-----	-----
5 Years.....	419	76.23	16	3.69	403	72.54	-----	-----
6-10 Years.....	1,788	359.46	46	10.89	1,742	348.57	-----	-----
11-15 Years.....	606	121.36	55	14.15	551	107.21	-----	-----
16-20 Years.....	412	60.62	236	35.76	176	24.86	99.0	99.5
21-25 Years.....	96	9.91	16	1.84	80	8.07	-----	-----
26-30 Years.....	37	4.11	12	1.45	25	2.66	-----	-----
31-35 Years.....	33	2.86	7	.81	26	2.05	-----	-----
36-40 Years.....	41	3.31	9	.65	32	2.66	-----	-----
41-45 Years.....	11	.85	3	.20	8	.65	-----	-----
46-50 Years.....	4	.25	2	.15	2	.10	-----	-----
51-55 Years.....	5	.30	2	.10	3	.20	-----	-----
	18,238	3,621.39	584	111.89	17,654	3,509.50	100	100

EXHIBIT No. 689

[From files of Life Insurance Sales Research Bureau, Hartford, Conn.]

(Confidential—For Staff Only)

Lapse rates for years 1925-1928

[Companies are grouped as in the 1938 Survey. Rates are listed below only where they are on a comparable basis]

	1925	1926	1927	1928
20 "A" Companies:	%	%	%	%
Aetna.....	22	19	19	16
Bankers (fa.).....	(?)	37	34	28
Canada L.....	20	17	16	18
Connecticut General.....	19	14	18	14
Connecticut Mutual.....	19	18	17	16
Great-West L.....	26	26	22	26
Guardian.....	33	23	21	(?)
Lincoln National.....	35	38	42	37
Massachusetts Mutual.....	(?)	11	10	9
Mutual Benefit.....	(?)	10	9	10
Mutual of New York.....	12	13	14	11
National of Vermont.....	13	14	17	18
New England Mutual.....	(?)	(?)	(?)	(?)
Northwestern Mutual.....	9	9	9	9
Pacific Mutual.....	(?)	27	26	24

Footnotes at end of exhibit.

Lapse rates for years 1925-1928—Continued

	1925	1926	1927	1928
20 "A" Companies—Continued.	%	%	%	%
Penn Mutual.....	11	11	12	12
Phoenix Mutual.....	15	14	15	14
Provident Mutual.....	17	16	15	14
State Mutual.....	14	13	16	15
Sun ¹	(2)	(2)	(2)	19
13 "B" Companies:				
Acacia.....	(2)	(2)	(2)	(2)
California-Western States.....	(2)	(2)	(2)	(2)
Fidelity Mutual.....	27	27	29	27
Franklin.....	(2)	(2)	(2)	(2)
Great Southern.....	(2)	(2)	(2)	(2)
Home of New York.....	17	19	20	20
Jefferson Standard.....	33	29	30	32
Manufacturers ¹	35	19	20	19
Minnesota Mutual.....	24	24	23	22
Mutual Trust.....	25	30	34	29
National Life & Accident.....	(2)	(2)	(2)	(2)
Northwestern National.....	(2)	(2)	(2)	31
Occidental of California.....	(2)	(2)	55	50
22 "C & D" Cos.:				
Atlantic.....	30	32	33	34
Bankers of Nebr.....	(2)	25	29	25
Continental American.....	(2)	(2)	(2)	(2)
Farmers & Bankers.....	(2)	(2)	(2)	(2)
Guarantee Mutual.....	(2)	(2)	(2)	(2)
Lamar.....	(2)	(2)	(2)	35
Midland Mutual.....	(2)	(2)	(2)	(2)
Midwest.....	28	34	37	32
Monarch (Mass.).....	(2)	(2)	(2)	(2)
National Guardian.....	(2)	(2)	24	21
Oregon Mutual.....	(2)	(2)	(2)	(2)
Pan-American.....	(2)	(2)	(2)	(2)
Philadelphia.....	39	34	38	38
Pilot.....	42	48	47	42
Southland.....	(2)	(2)	(2)	(2)
Standard of Pa.....	28	38	42	36
Union Mutual.....	(2)	(2)	(2)	(2)
United Benefit.....	(2)	(2)	(2)	(2)
United Life & Accident.....	40	45	46	35
Volunteer State.....	34	40	42	42
West Coast.....	48	54	51	48
Western.....	(2)	(2)	(2)	(2)

Footnotes at end of exhibit.

L. I. S. R. B.

12/39:D.

(Confidential—For Staff Only)

Lapse rates for years 1929-1938

[Companies are grouped as in the 1938 Survey. Rates are listed below only where they are on a comparable basis]

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1st 6 Mo., 1938	Last 6 Mo., 1938	Year 1938
20 "A" Companies:	%	%	%	%	%	%	%	%	%	%	%	%
Aetna.....	16	20	21	23	20	18	18	13	13	14	17	15
Bankers (Ia.).....										25	27	26
Canada ¹	17	22	23	29	28	17	20	12	16	22	20	21
Connecticut Gen.....	17	21	23	28	26	20	23	17	18	21	18	19
Connecticut Mut.....	17	21	23	24	26	19	18	16	15	17	18	17
Groat-West ¹	26	29	38	50	49	27	23	20	19	25	23	24
Guardian.....	19	22	21	25	25	25	25	20	18	20	20	20
Lincoln National.....	37	44	41	43	39	35	33	27	25	32	29	30
Mass. Mutual.....	9	12	13	18	20	18	19	14	15	15	16	15
Mutual Benefit.....	9	13	11	14	16	20	18	13	12	13	14	13
Mutual of N. Y.....	11	12	14	17	19	17	14	11	9	14	11	12
National of Vt.....	17	20	23	33	32	24	25	19	18	19	18	19
N. E. Mutual.....	9	12	12	19	18	13	12	10	10	11	12	11
N. W. Mutual.....	10	11	13	16	18	16	14	10	10	13	11	12
Pacific Mutual.....	23	25	29	33	31	26	27	25	33	20	25	22
Penn Mutual.....	15	20	19	21	25	23	22	17	17	19	16	18
Phoenix Mutual.....	12	15	17	17	15	11	19	12	12	14	17	16
Provident Mutual.....	12	16	18	26	21	18	17	14	15	16	16	16

Footnotes at end of exhibit.

Lapse rates for years 1929-1938—Continued

Companies are grouped as in the 1938 Survey. Rates are listed below only where they are on a comparable basis]

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1st 6 Mo., 1938	Last 6 Mo., 1938	Year 1938
20 "A" Companies— Continued.	%	%	%	%	%	%	%	%	%	%	%	%
State Mutual	13	15	16	19	20	22	21	17	13	15	14	14
Sun ¹	19	21	12	21	23	28	20	14	16	19	22	21
Average "A" Cos.	-----	17	17	22	22	20	18	15	14	16	16	16
13 "B" Companies:												
Acacia										26	22	24
Calif.-West. States	36	45	33	² 40	25	38	² 38			36	35	35
Fidelity Mutual	24	22	25	29	27	24	24	19	19	19	20	19
Franklin										45	38	42
Great Southern	46	60	64	67	75	52	47	42	38	43	42	42
Home of N. Y.	19	25	26	28	27	22	21	15	13	15	16	16
Jefferson Standard	33	39	41	40	34	38	37	33	30	34	28	31
Manufacturers ¹	32	28	29	31	33	25	19	11	13	23	18	20
Minnesota Mutual										37	33	35
Mutual Trust	31	33	32	38	34	33	34	24	26	31	29	30
National L. & A.						61	56	41	45	58	41	50
N. W. National	35	37	35	36	32	30	30	31	26	27	34	30
Occidental of Cal.	46	48	48	66	61	72	45	39	34	38	30	34
Average "B" Cos.	-----	-----	-----	-----	-----	-----	-----	-----	-----	35	30	33
22 "C. & D." Cos.:												
Atlantic	37	41	42	39	44	² 39	34	35	35	37	26	32
Bankers of Nebr.	25	30	39	48	45	42	42	49	40	43	30	37
Continental Amer. Farmers & Bankers	45	48	55	73	62	55	57	60	54	33	23	28
Guarantee Mutual										48	58	53
Lamar	39	51	53	52	55	50	43	39	35	39	37	38
Midland Mutual	24	27	27	30	28	² 29	24	23	21	25	21	23
Midwest	44	45	38	55	58	53	62	56	52	61	69	65
Monarch (Mass.)	31	46	42	45	40	35	43	33	31	40	44	42
National Guardian	17	22	21	25	25	32	26	25	25	27	21	24
Oregon Mutual	31	39	37	35	39	50	45	36	35	28	33	31
Pan-American										39	35	37
Philadelphia	35	37	39	35	54	39	41	26	29	34	24	29
Pilot	41	53	46	48	45	49	46	37	39	46	38	41
Southland	37	45	54	60	58	50	47	37	39	45	47	46
Standard of Pa.	32	40	31	50	37	48	39	22	34	31	22	26
Union Mutual										34	27	30
United Benefit						52	50	57	58	68	52	60
United L. & A.										31	21	26
Volunteer State	38	46	50	51	41	46	41	38	38	33	40	36
West Coast	51	55	57	53	51	52	51	46	45	44	53	48
Western										55	42	49
Av. "C. & D." Cos.	-----	-----	-----	-----	-----	-----	-----	-----	-----	45	39	42
Av. All U. S. Cos.	-----	22	23	27	28	26	24	20	19	21	20	21
Canadian Lapse Rates—11 Companies:												
Canada ⁴			21	19	22	16	19	17	19	26	24	25
Confederation			31	25	30	22	20	19	17	22	20	21
Dominion								21	21	21	20	20
Equitable Life						32	35	35	27	26	38	32
Great-West ⁴							16	17	20	23	23	24
Imperial			15	21	21	17	16	15	16	19	21	20
London			25	23	27	24	20	24	26	25	28	27
Manufacturers ⁴			23	26	28	20	21	15	21	20	24	22
Mutual of Canada			14	11	10	16	14	12	13	12	15	14
North American										19	15	19
Sun ⁴			12	16	19	19	18	15	15	13	20	17
Average Canadian Companies	-----	-----	-----	-----	-----	-----	-----	-----	-----	19	22	21

¹ United States business only.² Estimated.³ Not available.⁴ Canadian business only.

Definition of lapses: For the purposes of the above table, "lapse" is defined as the going out of force, because of nonpayment of premiums, of an insurance contract before premiums for 2 full years have been paid.

Formula: The rate is the total amount regarded as lapsed during the quarter, divided by $\frac{1}{3}$ the total sales during a 24-month period ending 2 months before the beginning of the quarter.

Lapse Trends for Twenty "A" Companies

[The figures below give the yearly lapse rates from 1930-1938, by Sections of the United States]

	1930	1931	1932	1933	1934	1935	1936	1937	1938
	% 17	% 17	% 22	% 22	% 20	% 18	% 15	% 14	% 16
United States total.....									
New England.....	13	13	18	18	17	16	13	11	14
Middle Atlantic.....	15	15	19	19	18	16	12	13	14
East North Central.....	17	17	22	23	19	18	13	13	16
West North Central.....	17	19	23	25	23	20	17	16	17
South Atlantic.....	20	10	23	23	21	20	16	15	16
East South Central.....	22	21	24	25	24	22	18	17	17
West South Central.....	25	28	30	27	25	23	19	19	19
Mountain.....	21	21	22	25	23	21	18	20	21
Pacific.....	21	20	25	24	22	21	17	18	18

L. I. S. R. B.
2/16/39:A

EXHIBIT No. 690

[From files of Association of Life Insurance Presidents]

MINUTES OF THE FIRST MEETING OF THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS OF THE UNITED STATES

The first meeting of the proposed "Association of Life Insurance Presidents" of the United States was held at the Waldorf-Astoria in New York City on Friday, December 21, 1906, in response to the letter sent out by President Morton, of the Equitable Life Assurance Society, on December 3, 1906.

At 10:30 A. M. the meeting was called to order by Mr. Morton.

The following were present:

Name of Company ¹	Location	Represented by
Aetna Life.....	Hartford, Conn.....	J. L. English, V. P.
Berkshire Life.....	Pittsfield, Mass.....	James W. Hull, President.
Connecticut General Life.....	Hartford, Conn.....	R. W. Huntington, Jr., Prest.
Equitable Life.....	New York, N. Y.....	Paul Morton, President; G. E. Tarbell, 2nd V. P.; and Geo. T. Wilson, 3d V. P.
Fidelity Mutual Life.....	Philadelphia, Pa.....	L. G. Fouse, President.
Germania Life.....	New York, N. Y.....	Cornelius Doremus, Prest.
Home Life.....	New York, N. Y.....	Gco. E. Ide, President.
Manhattan Life.....	New York, N. Y.....	N. W. Torrey, Secretary.
Maryland Life.....	Baltimore, Md.....	W. H. Blackford, Prest.
Massachusetts Mutual.....	Springfield, Mass.....	John A. Hall, President.
Metropolitan Life.....	New York, N. Y.....	Haley Fiske, V. P., and F. O. Ayres, 4th V. P.
Michigan Mutual Life.....	Detroit, Mich.....	A. F. Moore, Secretary.
Mutual Life.....	New York, N. Y.....	Charles A. Peabody, Prest.
National Life.....	Montpelier, Vt.....	Joseph A. DeBoer, Prest., and J. T. Phelps, V. P.
New England Mutual Life.....	Boston, Mass.....	Alfred D. Foster, V. P.
New York Life.....	New York, N. Y.....	D. P. Kingsley and Thos. A. Buckner, V. P.'s.
Provident Life & Trust.....	Philadelphia, Pa.....	Asa A. Wing, President, and Jos. Ashbrook, V. P.
Provident Savings.....	New York, N. Y.....	John W. Vrooman, Secy.
Prudential.....	Newark, N. J.....	Dr. Leslie D. Ward, V. P.
Security Mutual Life.....	Binghamton, N. Y.....	Charles M. Turner, Prest.
State Mutual Life.....	Worcester, Mass.....	A. G. Bullock, President.
Travelers.....	Hartford, Conn.....	S. C. Dunham, President.
Union Central Life.....	Cincinnati, Ohio.....	J. R. Clerk, President.
United States Life.....	New York, N. Y.....	Dr. John P. Munn, Prest.

¹ The Washington Life, of New York, the Equitable Life of Iowa, and the Pacific Mutual Life of San Francisco, California, expressed themselves by letter as being favorable to the proposed organization, but were unable to be represented at the meeting.

Upon motion of Mr. Buckner, duly made and carried, Mr. Morton was elected Chairman of the Meeting.

Upon motion of Mr. Tarbell, duly made and carried, Mr. Buckner was elected Secretary of the Meeting.

The Chairman stated that the object of the meeting was clearly set forth in his communication of December 3, addressed to the Presidents of the principal Life Insurance Companies throughout the country, the said objects being:

First. To promote the welfare of policyholders.

Second. To advance the interests of life-insurance companies in the United States by the intelligent cooperation of officers in charge.

Third. To prevent extravagance and reduce expenses by encouraging uniformity of practice among life-insurance companies in matters of general administration.

Fourth. To consider carefully measures that may be introduced from time to time in legislative bodies, with a view to ascertaining and publicly presenting the grounds which may exist for opposing or advocating the proposed legislation, according as the welfare of the companies and their policyholders shall point to the one course or the other.

Fifth. To consider anything that may be suitably a matter of general concern to the life-insurance business.

Upon suggestion of the Chairman, the Secretary called the roll of the companies alphabetically, and each company, through its senior officer present, expressed its views on the subject of the proposed organization.

After each company represented had been heard from, it was

Resolved, upon motion of Dr. Munn, duly made and carried, that a Committee of Seven be appointed by the Chairman, of which he himself should be a member, to draft a Constitution and Bylaws for the organization, said Committee to report to the full meeting at 3 P. M. this day.

The Chairman accordingly appointed the following Committee:

Dr. John P. Munn, President of the United States Life Insurance Company; Haley Fiske, Vice President of the Metropolitan Life Insurance Company; L. G. Fouse, President of the Fidelity Mutual Life of Philadelphia; Joseph A. De Boer, President of the National Life of Montpelier, Vermont; Dr. Leslie D. Ward, Vice President of the Prudential Insurance Company of Newark, New Jersey; J. R. Clark, President of the Union Central of Cincinnati, Ohio; and Paul Morton.

Upon motion, duly made and carried, the meeting adjourned until 3 P. M. this day.

The Adjourned Meeting was called to order by Mr. Morton at 3 P. M.

Mr. Buckner, the Secretary, being unable to attend the afternoon session, the Chairman requested his own private secretary to act as Secretary of the Meeting, to which there was no objection.

The Committee on Constitution and Bylaws being ready to report, the Chairman requested Dr. Munn to read the Committee's report to the meeting. Dr. Munn thereupon read the draft of a proposed Constitution and Bylaws prepared by the Committee.

Upon motion of Mr. Ide, duly seconded, it was

Resolved, that the report of the Committee be received and the Committee be discharged, and that the proposed Constitution be printed and the Chairman send a copy to each Company with a statement that at the next meeting of the Association the report would be brought up for discussion and adoption.

Upon motion of Mr. Doremus, it was

Resolved, that Mr. Morton be continued as Chairman of the Association temporarily.

Upon motion of Dr. Munn, duly made and carried, the meeting adjourned to meet at 11:30 A.M. on Friday, December 28, 1906.

(Signed) PAUL MORTON, *Chairman*.

(Signed) JOHN NORDHOUSE, *Secretary*.

EXHIBIT No. 691

[Prepared by Association of Life Insurance Presidents]

Initiation Fees, Dues and Contributions

Member Companies	1934	1935	1936	1937	1938
Acacia Mutual Life Insurance Company, Washington D. C.	\$1,211.76	\$1,562.95	\$1,186.64	\$1,836.20	\$1,810.60
Aetna Life Insurance Company, Hartford, Conn.	8,543.24	10,631.05	8,820.56	12,556.90	11,376.60
American United Life Insurance Company, Indianapolis, Ind.	458.48	718.80	427.84	909.25	1,041.88
Atlantic Life Insurance Company, Richmond, Va.	597.80	687.50	566.44	768.05	-----
Bankers Life Company, Des Moines, Iowa	2,831.68	3,549.30	3,318.96	4,445.75	3,654.12
Bankers Life Insurance Company of Nebraska, Lincoln, Nebr.	604.84	741.75	612.80	860.90	770.28
Berkshire Life Insurance Company, Pittsfield, Mass.	993.52	1,198.90	885.60	1,250.80	1,052.88
Boston Mutual Life Insurance Company, Boston, Mass.	305.76	370.45	291.04	383.30	343.28
The Canada Life Assurance Company, Toronto, Ont., Canada	765.32	938.75	726.20	1,077.35	968.44
Central Life Assurance Society, Des Moines, Iowa	742.84	1,154.35	768.16	1,055.15	938.20
Central Life Insurance Company of Illinois, Chicago, Ill.	349.08	351.40	285.76	342.30	311.36
The Colonial Life Insurance Company of America, Jersey City, N. J.	394.16	435.20	346.12	474.80	432.76
The Columbian National Life Insurance Company, Boston, Mass.	699.28	902.50	781.16	1,021.55	1,009.92
Confederation Life Association, Toronto, Ont., Canada	100.00	100.00	185.44	267.50	235.96
Connecticut General Life Insurance Company, Hartford, Conn.	2,908.92	4,318.75	4,462.16	6,373.75	6,838.88
The Connecticut Mutual Life Insurance Company, Hartford, Conn.	5,802.72	9,352.65	6,325.20	7,860.30	7,183.32
Continental American Life Insurance Company, Wilmington, Del.	580.40	630.10	539.36	792.85	621.84
Continental Assurance Company, Chicago, Ill.	807.64	912.55	757.96	1,089.70	1,069.00
The Equitable Life Assurance Society of the United States, New York, N. Y.	21,955.76	36,472.25	34,875.24	40,082.30	33,930.88
Equitable Life Insurance Company of Iowa, Des Moines, Iowa	2,149.20	2,708.10	2,650.12	3,356.60	3,156.40
Federal Life Insurance Company, Chicago, Ill.	553.40	385.30	311.52	467.25	401.64
The Fidelity Mutual Life Insurance Company, Philadelphia, Pa.	1,369.33	2,306.45	2,018.00	2,575.75	2,255.20
The Franklin Life Insurance Company, Springfield, Ill.	687.40	947.20	733.56	1,013.45	900.16
The Guardian Life Insurance Company of America, New York, N. Y.	1,926.00	2,802.80	2,231.80	3,314.45	2,983.32
Home Life Insurance Company, New York, N. Y.	1,468.80	1,967.55	1,675.88	2,247.25	2,074.60
The Imperial Life Assurance Company of Canada, Toronto, Ont., Canada	186.00	194.30	187.00	223.90	192.16
Jefferson Standard Life Insurance Company, Greensboro, N. C.	1,347.00	1,816.40	1,459.00	2,362.00	2,132.36
John Hancock Mutual Life Insurance Company, Boston, Mass.	10,914.88	14,806.20	12,484.84	17,010.75	15,717.64
The Life Insurance Company of Virginia, Richmond, Va.	1,231.88	1,615.60	1,409.68	2,115.05	2,262.12
The Lincoln National Life Insurance Company, Fort Wayne, Ind.	2,598.28	3,606.05	2,929.25	4,712.70	4,643.48
The London Life Insurance Company, London, Ont., Canada	100.00	100.00	100.00	100.00	100.00
The Manhattan Life Insurance Company, New York, N. Y.	386.08	420.65	368.88	485.05	560.28
The Manufacturers Life Insurance Company, Toronto, Ont., Canada	397.04	599.20	605.16	1,446.25	1,414.40
Massachusetts Mutual Life Insurance Company, Springfield, Mass.	10,195.52	10,842.50	8,317.44	13,971.95	11,984.68
Metropolitan Life Insurance Company, New York, N. Y.	64,506.64	82,581.90	62,167.36	86,604.30	76,104.52
The Minnesota Mutual Life Insurance Company, St. Paul, Minn.	309.98	1,014.10	854.04	1,342.40	1,173.00
The Mutual Benefit Life Insurance Company, Newark, N. J.	9,942.32	11,478.20	10,741.44	17,778.00	15,972.84
The Mutual Life Assurance Company of Canada, Waterloo, Ont., Canada	100.00	100.00	100.00	100.00	100.00
The Mutual Life Insurance Company of New York, New York, N. Y.	20,167.68	28,339.60	25,316.72	28,922.00	25,787.88
Mutual Trust Life Insurance Company, Chicago, Ill.	-----	969.30	754.12	1,066.00	1,039.44
The National Life and Accident Insurance Company, Inc., Nashville, Tenn.	1,242.84	1,382.30	988.36	1,555.35	1,443.36
National Life Insurance Company, Montpelier, Vt.	2,177.64	3,435.85	3,562.28	3,989.90	3,447.28

Initiation Fees, Dues and Contributions—Continued

Member Companies	1934	1935	1936	1937	1938
New England Mutual Life Insurance Company, Boston, Mass.	7,037.68	10,435.70	8,947.48	12,330.65	11,595.08
New York Life Insurance Company, New York, N. Y.	32,866.08	46,640.65	37,531.60	47,371.65	43,493.96
Northwestern National Life Insurance Company, Minneapolis, Minn.	1,416.68	2,056.65	1,870.24	2,674.25	1,768.04
Occidental Life Insurance Company, Raleigh, N. C.	207.52	234.00	205.16	267.95	252.84
The Ohio National Life Insurance Company, Cincinnati, Ohio	742.96	1,028.95	868.52	1,245.85	1,082.08
The Old Line Life Insurance Company of America, Milwaukee, Wis.	340.16	408.35	381.20	594.70	531.20
Pacific Mutual Life Insurance Company, Los Angeles, Calif.	2,960.04	3,876.10	2,331.25	-----	-----
The Penn Mutual Life Insurance Company, Philadelphia, Pa.	8,242.00	10,480.40	10,280.36	15,012.05	12,383.64
Phoenix Mutual Life Insurance Company, Hartford, Conn.	3,272.04	6,362.80	4,436.32	5,710.85	5,351.60
Provident Life Insurance Company, Bismarck, N. Dak.	171.68	190.30	181.80	248.35	245.16
Provident Mutual Life Insurance Company of Philadelphia, Philadelphia, Pa.	4,850.84	6,806.40	4,799.96	6,341.85	5,622.72
The Prudential Insurance Company of America, Newark, N. J.	51,657.68	65,768.60	54,579.72	78,750.50	62,643.88
Puritan Life Insurance Company of Rhode Island, Providence, R. I.	131.57	131.75	128.48	136.85	132.12
Reliance Life Insurance Company of Pittsburgh, Pittsburgh, Pa.	1,669.24	2,940.80	2,182.32	3,165.85	3,038.48
Reserve Loan Life Insurance Company, Indianapolis, Ind.	576.16	538.30	365.40	513.20	420.08
Security Mutual Life Insurance Company, Binghamton, N. Y.	503.16	692.95	524.88	851.30	702.12
Southland Life Insurance Company, Dallas, Texas.	574.88	642.05	507.08	702.35	697.04
State Mutual Life Assurance Company, Worcester, Mass.	2,369.44	2,847.05	2,344.04	3,490.50	3,001.20
Sun Life Assurance Company of Canada, Montreal, Que., Canada	4,601.72	6,120.85	4,664.60	6,886.15	7,264.12
Sun Life Insurance Company of America, Baltimore, Md.	276.52	335.85	294.72	416.70	370.92
The Travelers Insurance Company, Hartford, Conn.	12,928.72	15,492.45	11,794.76	17,115.90	15,422.08
The Union Central Life Insurance Company, Cincinnati, Ohio	4,964.56	5,783.55	4,832.44	6,470.80	5,746.96
Union Mutual Life Insurance Company, Portland, Me.	347.52	413.25	398.40	611.70	553.12
The United States Life Insurance Company, New York, N. Y.	199.24	214.80	232.36	385.40	404.44
The Volunteer State Life Insurance Company, Chattanooga, Tenn.	482.56	560.65	442.40	622.55	519.96
The Western and Southern Life Insurance Company, Cincinnati, Ohio	1,892.40	2,444.20	1,956.68	2,949.90	2,605.56
Totals	332,694.16	442,896.15	365,211.29	495,086.85	435,375.96

NOTE.—Each of the above items includes \$100 annual dues (except Minnesota Mutual \$50.00 and Puritan Life \$25.00 for 1934). The above items also include initiation fees of \$100 each for the Minnesota Mutual and Puritan in 1934 and for the Mutual Trust in 1935. Prior to 1937, the American United was the American Central.

EDW.
4/10/39.

EXHIBIT No. 692

[From files of Association of Life Insurance Presidents]

CONSTITUTION OF THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS

[Title page: Constitution, April 2, 1920—The Association of Life Insurance Presidents—No. 165 Broadway
New York City]

CONSTITUTION

(As amended April 2, 1920)

NAME

ARTICLE I. This Association shall be called "The Association of Life Insurance Presidents."

OBJECT

ARTICLE II. The object of this Association shall be:

First. To promote the welfare of policyholders.

Second. To advance the interests of life insurance.

Third. To promote economy and reduce expenses in matters of general administration by an interchange of views on practice among life insurance companies.

Fourth. To consider carefully important measures that may be introduced from time to time in legislative bodies, with a view to ascertaining and publicly presenting the grounds which may exist for their adoption or rejection by the Legislature.

Fifth. To consider anything that may be suitably a matter of general concern to the life insurance business.

MEMBERSHIP

ARTICLE III. The Association shall consist of the Presidents and the Vice Presidents of the regular life insurance companies of the United States and Officers of the same standing in Canadian companies doing business in the United States now enrolled as members of the Association. New members may hereafter be admitted to this Association by Resolution at a regular meeting of the Association, or at any meeting of the Executive Committee by a unanimous vote of the committee. The right to vote shall be limited to the officer of each company highest in rank who may be present at any meeting. Every member of the Association shall have the right to designate as his proxy to attend any meeting of the Association any officer of the company he represents.

OFFICERS

ARTICLE IV. The Association shall have an executive officer to be known as Manager, who shall be elected annually by the Association at its regular Annual Meeting, to be held in the month of December in each year, and who shall hold office for one year, or until his successor is appointed. He shall receive as compensation such salary as may be determined by the Association or the Executive Committee.

There shall also be elected by the Association at the same time, and in the same manner, eleven members of the Association, who shall constitute an Executive Committee, which shall attend to any business that may arise between the stated meetings of the Association. The Manager shall be ex-officio Chairman of the Executive Committee, but shall have no vote. A member of the Executive Committee shall have power to appoint a proxy to act in his stead at any meeting of the Committee in case of his inability to attend in person.

Vacancies may be filled at any meeting of the Association, stated or special.

VACANCIES

ARTICLE V. The Executive Committee shall have power to fill any vacancy occurring in said Committee or in any office and likewise shall have power to direct that the duties of any officer or employee be performed temporarily in whole or in part by any other person or by a committee designated for that purpose.

DUTIES OF OFFICERS

ARTICLE VI. The Manager shall have sole charge and management of the affairs of the Association subject to such direction and control as may be exercised by the Executive Committee or by the Association.

He shall receive and carefully keep all the moneys belonging to the Association, and disburse the same as may be directed by the Association from time to time, or by the Executive Committee.

He shall notify the members of the Association of all meetings. In the case of special meetings, the business for which the special meeting is called shall be stated in the notice.

He shall take and keep a record of all proceedings of each meeting, and conduct the correspondence of the Association.

He shall employ such assistants as in his judgment may be necessary and the Association or the Executive Committee may approve.

The Executive Committee shall appoint an Auditing Committee, to consist of three members of the Association. It shall be the duty of this Committee to audit the expenditures of the Association, and to report thereon at the end of each year, and at such other times as the Association or Executive Committee may direct.

MEETINGS

ARTICLE VII. The Association shall hold stated meetings in New York, or at such other place as may be agreed upon, on the first Friday of October, December, February, April, and June in each year, unless the Executive Committee shall for good reason decide to vary the day.

Special meetings may be called at any time by order of the Manager, or at the written request of five members.

Five voting members of the Association shall constitute a quorum, providing said members represent companies domiciled in at least three different States or Territories.

SPECIAL RESOLUTIONS AND RECOMMENDATIONS

ARTICLE VIII. No recommendation shall be held to be the sense of the Association unless passed or approved by unanimous vote of the members, provided, however, that in case one or more negative votes are cast upon any recommendation, three-fourths of the members present and voting may direct that the question be submitted to a subsequent meeting, of which due notice shall be given, and at such subsequent meeting the recommendation may be passed or approved by a three-fourths vote of the members—the Manager to give absent members an opportunity to vote.

FEES

ARTICLE IX. The initiation fee of the Association shall be \$100, and the annual dues \$100 for each voting member. To cover any additional expense necessarily incident to conducting the business of the Association, the contributions of members shall be determined by pro-rating substantially one-half of the cost of the Association (excepting that portion of the cost paid by initiation fees and annual dues) on the basis of the admitted assets of the several companies, as of the last December 31st, Canadian companies to be asked to pay on the basis of the reserves and such additional assets as may be held by them against policies carried on residents of the United States only. The remaining one-half of the cost to be pro-rated on the basis of first year's premiums received on ordinary business on original policies less reinsurance, as shown in Income Report in the last Annual Statement; Canadian companies to pay on their United States premium collections only.

[illegible]

EXHIBIT No. 694

[Prepared by Association of Life Insurance Presidents]

SCHEDULE

Total Fees, Compensation, and Expenses in Connection With Legislation and Appearances Before Departments of Government, by States, 1934 Through 1938

State	1934		1935		1936		1937		1938		Legislative Representative to Whom Fee or Compensation Paid
	Fees and Compensation	Ex- penses	Fees and Compensation	Ex- penses	Fees and Compensation	Ex- penses	Fees and Compensation	Ex- penses	Fees and Compensation	Ex- penses	
Alabama.....	-----	-----	(1) \$500.00	\$2,008.84	(2) *\$1,000.00	\$188.07	-----	\$420.22	(3) *\$1,750.00	\$238.74	(1) Cyrus B. Brown,* (2) Weil, Stakely & Cater, (3) Cabaniss & Johnston.
Arizona.....	-----	-----	-----	1,294.43	-----	80.14	-----	962.03	-----	235.91	Verne McMillen.
Arkansas.....	-----	-----	500.00	779.13	-----	-----	-----	636.21	-----	213.03	(1) Pillsbury, Madison & Sutro, (2) Knight, Boland & Riordan.
California.....	(2) \$500.00	-----	(2) 10,000.00	2,416.38	-----	-----	(1) \$4,500.00	3,909.18	(2) 250.00	95.39	-----
Colorado.....	-----	-----	-----	3,069.94	-----	179.44	(2) 3,000.00	1,575.00	-----	128.59	-----
Connecticut.....	-----	215.33	-----	183.36	-----	-----	-----	185.18	-----	19.03	-----
Delaware.....	-----	95	-----	190.34	-----	62.50	-----	397.53	-----	6.63	-----
Florida.....	-----	42.74	-----	2,388.18	-----	-----	-----	1,670.02	-----	12.40	-----
Georgia.....	-----	-----	510.00	-----	-----	-----	-----	809.02	-----	824.01	-----
Idaho.....	-----	-----	1,019.87	1,019.87	-----	-----	-----	611.61	-----	210.00	M. M. Parrish.*
Illinois.....	-----	730.55	-----	3,671.53	-----	62.50	-----	1,245.65	-----	30.00	-----
Indiana.....	-----	1.16	-----	1,186.50	-----	728.38	-----	605.40	-----	72	-----
Iowa.....	-----	138.64	-----	1,219.65	-----	122.28	-----	207.62	-----	104.50	(1) Wheeler, Brewster & Hunt, (2) John L. Hunt.
Kansas.....	(1) 500.00	125.98	(1) 1,000.00	378.47	-----	191.11	(1) 1,250.00	435.62	(2) 400.00	-----	-----
Kentucky.....	-----	2,417.42	-----	-----	-----	1,107.26	-----	291.03	-----	592.23	-----
Louisiana.....	-----	2,292.71	-----	109.13	-----	2,744.86	-----	12.00	-----	2,392.80	-----
Maine.....	-----	40.24	-----	181.29	-----	62.50	-----	182.19	-----	42.80	-----
Maryland.....	-----	-----	-----	243.15	-----	-----	-----	448.64	-----	84.70	-----
Massachusetts.....	-----	203.35	-----	247.65	-----	206.17	-----	196.68	-----	304.36	-----
Michigan.....	-----	186.57	-----	227.26	-----	62.50	-----	429.30	-----	30.60	-----
Minnesota.....	-----	65.43	-----	636.27	-----	115.00	-----	642.23	-----	-----	-----
Mississippi.....	-----	675.73	-----	248.68	-----	591.10	-----	59.15	-----	1,295.23	W. Calvin Wells.
Missouri.....	(1) 2,500.00	614.90	(1) 5,000.00	222.91	-----	-----	*1,500.00	1,410.62	-----	-----	(1) Jones, Hocker, Gladney & Grand. (2) Ernest A. Green, (3) F. M. McDavid (Both assisting Jones, Hocker, etc.).
-----	(2) 400.00	-----	-----	1,741.85	-----	-----	(1) 3,500.00	-----	-----	-----	-----
-----	(3) 100.00	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Montana.....	-----	274.73	-----	689.59	-----	-----	-----	254.67	-----	9.25	O. Petrus Peterson.
Nebraska.....	-----	-----	-----	208.64	-----	-----	-----	266.93	-----	63.17	-----
-----	-----	-----	-----	-----	-----	-----	-----	-----	*2,500.00	-----	-----

EXHIBIT No. 695

[From files of Metropolitan Life Insurance Co.—Office of the President]

THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS

NUMBER 165 BROADWAY, NEW YORK

VINCENT P. WHITSITT, *Manager and General Counsel*
 BRUCE E. SHEPHERD, *Actuary*
 CHARLES F. CRESWELL, *Statistician*
 ROBERT L. HOGG, *Assistant General Counsel*

CLYDE W. SAVERY, *Attorney*
 FRANK D.F. ROSS, *Associate Attorney*
 MOTT A. BROOKS, *Assistant Secretary*
 ROBERT B. CRANE, *Assistant Secretary*

JULY 12, 1937.

Confidential.

[Notation: m 7/21/37]

LEROY A. LINCOLN, ESQ.,

*President, Metropolitan Life Insurance Company,
 1 Madison Avenue, New York, N. Y.*

1937 LEGISLATIVE HIGH POINTS

DEAR MR. LINCOLN: For the confidential information of member companies, there are outlined below a few of the high points of 1937 legislative proposals. Detailed information appears in our regular bulletin service.

Of the 46 regular and 14 special sessions—in 46 states, 2 territories and Congress—Congress and 3 states (Minnesota, New Hampshire, Ohio) are still active. Total bills examined here, 11,047, set a new high, almost double that of 6 years ago and over 3 times that of 10 years ago.

Ten premium tax increase bills on foreign companies failed in 8 states—California, Colorado, Florida, Georgia, Minnesota, Nevada, Oklahoma, Washington. None enacted. Such proposals so far failed this year would have increased the annual tax by \$3,300,000. A bill, still pending, was passed by the House to increase the District of Columbia rate from 1½ to 2%. This increase has been delayed by the Senate committee.

Seven bills were introduced in 5 states to subject annuity considerations to premium taxation. Five failed, 1 was amended in Maryland to exempt annuities and enacted, and the other in New Hampshire is still in committee.

Four compulsory investment bills failed in 2 states. None enacted.

Nine savings bank life insurance bills failed in 7 states—Colorado, Connecticut, Missouri, New York, Ohio, Pennsylvania, Rhode Island. None enacted.

Seven bills specifically to restrict policy loan interest failed in 5 states—4½% in Minnesota and New York; 4% in Colorado and Pennsylvania, and prohibition of any interest in California. None enacted. Numerous other bills to restrict general interest failed.

New insurance codes were enacted in Illinois and Alaska. Proposed codes failed in Pennsylvania and Hawaii.

Proposals were made in 9 jurisdictions to subject applicants for life agents' licenses to department examination. All failed, or were amended to exempt life, except in Washington a new law requires examination but permits it to be given by a company with an approved course of instruction.

A large number of net- and gross-income and sales-tax measures, broad enough to include insurance were proposed. Numerous inheritance, intangible, gift, stamp, capital-stock, mortgage-and municipal-tax bills, would have imposed additional taxes on life insurance. One intangible tax proposal would have specifically taxed annuities and surrender values.

A new Georgia law requires deposits by life insurance companies. In Alabama, Arkansas, Delaware, and Nebraska, proposals to require bonds or deposits in the state were unsuccessful. The Nebraska bill would have required a deposit equal to Nebraska reserve with either 30% in Nebraska securities or an additional 2% premium tax.

Other noteworthy adverse measures which failed included proposals for: Premium notices, attorneys' fees and penalties, insurance investigations, prohibition of race distinction, segregation of life-insurance assets, appointment of certain life companies directors by a State Insurance Commissioner, and all companies to offer renewable term insurance.

Forty measures of interest from a mortgage loan viewpoint were enacted. Nearly half extend emergency laws permitting stays of foreclosures, extensions of redemption periods, or modifications of deficiency-judgment rights. Others prohibit deficiency judgments in certain cases, or provide other changes in foreclosure procedure. Two bills in Oklahoma would have provided for escheat of corporate-owned farm lands held beyond 7 years. One which became law was

amended to substitute a penalty. In 4 States, 6 bills to impose a graduated land tax failed. Two such measures are pending in Minnesota. Numerous other measures adverse to mortgage-loan investments failed.

The favorable outcome is attributable to the cooperation of life insurance men—both home office and field—wholly typical of the institution of life insurance.

Very truly yours,

VINCENT P. WHITSITT,
Manager and General Counsel.

VPW:GN.

EXHIBIT No. 696

[From files of Association of Life Insurance Presidents]

THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS

NUMBER 165 BROADWAY, NEW YORK

VINCENT P. WHITSITT, *Manager and General Counsel*
BRUCE E. SHEPHERD, *Actuary*
CHARLES F. CRESWELL, *Statistician*

FRANK DEF. ROSS, *Associate Attorney*
MOTT A. BROOKS, *Assistant Secretary*
ROBERT B. CRANE, *Assistant Secretary*

JULY 5, 1935.

Confidential.

1935 LEGISLATIVE HIGH POINTS

DEAR SIR: For the confidential information of member companies, herein is presented a condensed summary of 1935 legislation. More complete details for adjourned states have already been given in our regular bulletins. As anticipated all previous years have been exceeded in activity, number of bills introduced, and proportion of unfavorable proposals.

Of the 50 sessions held in 45 states and Congress, 45 were regular and 5 special. Congress and 3 states (Alabama, Massachusetts, and Wisconsin) are still in session.

The 10,876 bills examined were nearly double those in 1931 and over four times those in 1925. The following illustrates trends in odd-numbered years:

Bills examined to June 30	1925	1927	1929	1931	1933	1935
Life Insurance.....	2,032	2,497	3,403	4,518	8,052	8,445
Real-estate Mortgage.....	594	548	933	1,221	2,375	2,431
Total.....	2,626	3,045	4,336	5,739	10,427	10,876

The large number of tax measures included 32 premium tax-rate increase proposals in 17 states; 9 to tax-annuity considerations in 7 states; numerous corporate net income and sales-and-gross-income tax proposals broad enough to include insurance; and inheritance, intangible, gift, stamp, capital stock, and mortgage tax bills. So far, two premium tax rate increases have become law, one in New York increasing the rate from 1% to 1¼%, and one in Utah increasing the rate from 1½% to 2¼%. In North Carolina and Wyoming, annuity considerations were included at the present premium tax rate.

An administration general revenue bill in Alabama as introduced, proposed a premium tax-rate increase to 3¾% (2¼% state; 1¼% counties), inclusion of insurance companies under the income tax, and the prohibition of dividend deductions. House amendments restored the present 2% rate, dividend deductions, and the exemption from income taxation, as well as eliminated the proposed 1¼% additional state-wide tax for the benefit of counties. The administration forces in the Senate, however, urgently insisted upon a 2½% rate, but accepted the other House amendments. In this form the bill has just been approved by the Conference Committee and both houses.

Proposed premium taxes, which failed, would have increased the rates to 6% in Florida and Michigan; 5% in Washington; 7½% in North Dakota; 4% in California, Colorado, Idaho and Utah; 3½% in Wyoming; 3% in Georgia, Oklahoma, and North Carolina. Other rate increases failed in Florida, Georgia, Nevada, Texas, and Utah. In Massachusetts, a proposal to increase from ¼ of 1% to 1% the present tax on reserves, failed. Attempts to include annuity considerations for premium taxation failed in Arkansas, Florida, New Hampshire, New York, and Wisconsin.

It is interesting to observe that the premium tax increase proposals introduced in 17 states would have meant an additional annual tax burden upon policyholders of approximately \$18,800,000. Those which became law in New York and Utah, and the probable one in Alabama, will increase such taxes about \$4,300,000. Those which failed resulted in a saving of \$14,500,000. The 17 states in which premium tax increases were proposed represent 42.5% of the United States population—the 14 states in which such proposals failed representing 30.2%, the other 3 states 12.3%.

16 compulsory investment bills appeared in 9 states, several including graduated premium tax increases in addition to the above. None was enacted.

8 measures proposing insurance codes were introduced in 6 states, some of which, as introduced, contained many adverse provisions. Codes were enacted in California and Indiana, and failed in Arkansas, Georgia, Illinois, and Missouri.

6 savings bank life insurance bills, similar to the Massachusetts law, failed in 5 states, as did a constitutional amendment in Missouri to permit creation of savings banks with or without life insurance departments.

Measures appeared in Tennessee and Vermont to require deposits for the benefit of policyholders of such states; in Nebraska to require a deposit equal to the reserve on all policies in the state, and in North Carolina to require a deposit equal to the loan value of all policies in the state for the benefit of North Carolina policyholders and their beneficiaries. All failed.

A large number of miscellaneous measures of life insurance interest appeared, including proposals for investigations of insurance companies, premium notices, attorneys' fees and penalties, automatic premium loans, state-fund life insurance, changes in the incontestable clause and other policy provisions, reduction of interest rates on policy loans and prohibition of advance interest and compound interest, and numerous other adverse proposals.

Of the 2,431 bills examined from the mortgage loan standpoint, 394 were of particular interest. 45 of the latter were enacted. About one-third of these extended existing laws of the emergency type permitting stays of foreclosures, extending redemption periods, or modifying deficiency judgment rights, while others comprise new measures of similar types as well as several which reduce interest rates. No enactment lowered the permitted rate below 6%, although several unsuccessful measures proposed changes to as low as 4%.

The Association's experience this year has revealed, more vividly than ever before, the effectiveness of cooperation between company officials and field representatives. The generous and loyal cooperation rendered by executives and agents in the various states, in behalf of life insurance policyholders, in warding off unjust impositions of all types, is a real tribute to the institution of life insurance.

Very truly yours,

Manager and General Counsel.

V.P.W.—M.T.

EXHIBIT No. 697

[From files of Association of Life Insurance Presidents]

THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS

NUMBER 165 BROADWAY, NEW YORK

VINCENT P. WHITSITT, *Manager and General Counsel*
 BRUCE E. SHEPHERD, *Actuary*
 CHARLES F. CRESWELL, *Statistician*
 ROBERT L. HOGG, *Assistant General Counsel*

CLYDE W. SAVERY, *Attorney*
 FRANK DE F. ROSS, *Associate Attorney*
 MOTT A. BROOKS, *Assistant Secretary*
 ROBERT B. CRANE, *Assistant Secretary*

APRIL 8, 1937.

RE CALIFORNIA SENATE BILL 460, SEGREGATION OF ASSETS

DEAR SIR: Section 8 of the above bill would require segregation of certain life-insurance assets by all companies doing business in California. It is actively sponsored by Insurance Commissioner Carpenter and has been vigorously opposed by the Association since its introduction in January.

The section has passed through several drafts, and a copy of the latest redraft is attached thereto. While still vague and ambiguous, it would now be applicable not only to companies doing an accident and health business, as originally contemplated, but also to companies writing life insurance only.

A Senate hearing, which has been postponed twice, is now set for Monday, April 12th. Mr. Shepherd—now in the fourth week of his second trip to California on this bill—advises that the Commissioner is under the impression that our opposition is solely in behalf of a few member companies doing an accident and health business. In order to reinforce the Association's opposition and dispel any misunderstanding, it would be most helpful if, at your early convenience, you would

(1) Telegraph to Insurance Commissioner Samuel L. Carpenter, Jr., 417 Montgomery Street, San Francisco, advising that you fully concur in the opposition of our Association to this measure;

(2) Telegraph to your general agents or managers in the San Francisco and Los Angeles areas, asking their active cooperation with Mr. Bruce E. Shepherd, St. Francis Hotel, San Francisco, and Mr. Karl L. Brackett, President of the State Life Underwriters Association, 1122 Russ Building, San Francisco; and

(3) Send air-mail confirmations of the telegrams to the law firm of Pillsbury, Madison & Sutro, attention Mr. L. B. Groezinger, Standard Oil Bldg., San Francisco, which firm has been specially retained by the Association to oppose this measure.

With much appreciation for your assistance and cooperation, I am,

Sincerely yours,

Manager and General Counsel.

V.P.W.—I.H.

Encl.

William Montgomery, Acacia.
Brainard & Beckwith, Aetna.
Woollen, American United.¹
Lounsbury, Atlantic (Special Delivery).
G. S. Nollen, Bankers, Iowa.¹
Fred P. Carr, Central, Iowa.¹
MacArthur, Central, Illinois.¹
Sears & Hughes, Columbian National.
Wilde & Laird, Conn. General.
Loomis, Conn. Mutual.
Behrens, Continental Assur.¹
Murphy & Pierson, Equitable, N. Y.
Nollen & Henry, Equitable, Iowa.¹
Hamilton, Federal.
Talbot, Fidelity Mutual.
Merriam, Franklin.
Heye & McLain, Guardian.
Fulton & Cameron, Home.
Price, Jefferson Standard.¹
Cox & Elliott, John Hancock Mutual.
Arthur F. Hall, Lincoln National.¹
Lovejoy & Graham, Manhattan.
Perry & Maclean, Mass. Mutual.
Taylor, Metropolitan.
Phillips, Minn. Mutual.¹

Thompson & Weaver, Mutual Benefit.
Allen, Mutual, N. Y.
Olson, Mutual Trust.¹
Wills & Peebles, National L. & A.¹
Brigham, National, Vt. (Special Delivery).
Smith, New England Mutual.
Aiken, Buckner & Cooke, N. Y. Life.
O. J. Arnold, N. W. National.¹
Appleby, Ohio National.¹
Reilly, Old Line Life.¹
Kingsley & Dechert, Penn Mutual.
Collens & Yost, Phoenix Mutual.
Linton, Provident Mutual.
Little & Merigold, Prudential.
Jamison, Reliance.
Russell, Security Mutual.
Seay, Southland.
Bullock, State Mutual.
Branch, Sun of Canada.
Zacher & Allen Brosmith, Travelers.
Cox, Union Central.¹
Phillips, Union Mutual (Special Delivery).

¹ Air Mail.

EXHIBIT No. 698

[From files of Association of Life Insurance Presidents]

[Notation: V. P. W. Florida General 1935.]

MEMORANDUM WITH REFERENCE TO FLORIDA LEGISLATIVE ACTIVITY, 1935

In handling Florida legislative matters, the following is a chronological outline of activity:

(a) A close check of all pending measures, being a review of such bills, notices of introduction of which had been received by the Association, as well as a check for any possible new introductions.

(b) Ascertainment of the attitude of the administration upon general insurance legislation, as well as specific measures.

(c) Ascertainment of whether the organization of the Senate and House had been effected by the administration. If so, effectiveness of control.

(d) General sentiment of the Legislature as to insurance matters.

(e) Establishing legislative contacts through various life groups, attention first being given to the membership of the Insurance and Finance Committees of the two houses.

(f) General development of a favorable legislative atmosphere with special emphasis upon particular measures.

PREVAILING UNFAVORABLE FACTORS

1. In 1934, through the adoption of a constitutional amendment, residence property of the assessed value of \$500, when occupied by the owner as a home, was exempt from taxation. To overcome this deficit, it was necessary to obtain \$10,500,000 in additional taxes from other sources. This, in itself, even in the absence of other factors, constituted a serious threat of increased taxation upon insurance.

2. The Governor, at the beginning of the session, firmly expressed his intention of placing additional taxes upon insurance, due primarily to his conviction that insurance companies had been exploiting the people of Florida, but specifically referred to the report of the Insurance Commissioner of the State showing that life companies in a particular year, had collected approximately \$17,000,000 in premiums while it had over the same period paid losses to the extent of only \$10,000,000. He insisted the difference represented profit, his position ignoring payments to living policyholders and residents of Florida. He was firmly convinced of his position and the accuracy of his figures.

3. The Governor further distributed memoranda of these figures to each member of the Legislature as justifying his position that insurance taxes should be materially increased, and such proposed increase was made a part of the administration program.

4. As indirectly affecting the insurance atmosphere, organized propagandists had created the impression that the fire companies had taken many millions of dollars from the people of Florida by fixing rates in Florida to offset losses in other States. This erroneous impression reflected itself many times with reference to life measures.

5. A general belief that life-insurance companies had unconscionably foreclosed mortgages in the State of Florida.

6. Erroneous belief that life companies took from Florida policyholders many millions of dollars which were invested in other States.

7. Many matters dealing with the internal organization and operation of the large life-insurance companies.

8. Complete domination of both houses of the Legislature by the Governor.

PROCEDURE

As soon as a study of the pending insurance measures had been completed and some thought given to anticipated introductions, it was decided, in view of the administration control of both houses, that it was imperative some effort should be made to overcome the antagonistic attitude of the Governor, otherwise effective contacts with the membership of either House would be ineffective. To accomplish this end, it was decided the approach to the Governor should be through purely political contacts. Work was begun immediately along this line and was prosecuted incessantly throughout the entire session. Further, since proposed insurance taxation was only a part of the Governor's program and was the portion capable of mustering strenuous opposition, the Governor, through its defeat, might suffer loss of prestige. Consequently, these political contacts urged upon the Governor that a further increase in insurance taxes was wrong on principle and then, from the purely political viewpoint, the measure might be defeated on its merits, thus affecting administration prestige.

These efforts were stressed while at the same time direct legislative contacts were also developed by the insurance groups.

COOPERATION WITH FLORIDA LIFE UNDERWRITERS

1. The Agency Directors' and Managers' Conference at Jacksonville is the best organized group of life underwriters in the state. These men were advised of the threatening nature of the legislative situation and requested to furnish a list of

the names and addresses of their Florida agents. Card index was then made for this information.

2. Contacts were immediately established with the individual agents to ascertain their sphere of influence with members of the House and Senate. Each agent was furnished with the names of the members of the House and Senate from his particular locality and asked to advise us at once as to acquaintanceship. Where the particular agent was close to some member, suggestions were made to ascertain the attitude of the particular member toward insurance. Many other items of a personal nature were also made the subject of inquiry.

3. After the agency contacts had been established, the check of House and Senate membership was made to ascertain the names of those with whom any such agency contacts had been directly established. For example, in many instances members came from some towns where there were no life agents. To meet this problem those members from various small communities with no resident life agents were listed and assigned to a larger city for contact. Notably the Jacksonville agents assumed the responsibility for contacts with some members from the north and the northeast section of the state, Tampa for the south central portion, and so on.

LEGISLATIVE CONTACTS

In order to obtain the most effective contacts with members of the Senate and House, the following course was followed:

1. The geographical location of each member was indicated upon a large map of the state by using red tacks for House and blue tacks for Senate members. Attached to each tack was the name and post-office address of a particular member. The map was on a large scale and clearly discernible for ready reference.

2. An individual card index was made for members of the House of Representatives and a similar index for members of the Senate. Each carried the post-office address and personal data of the particular member. Notation was made in some instances as to the best method of approach. For example, if a particular life-insurance agent was personally acquainted with a member, a notation was made to that effect. It was not considered wise, however, to place much personal information on these cards. This was carried on a separate memoranda. To indicate a member's attitude towards insurance, or the names of the particular agents with whom he was on intimate terms, might be subsequently the cause of some embarrassment to both the member and ourselves in the event that the cards should come to the attention of unauthorized persons. Consequently records as to attitude of members or each plan of contact were in most cases omitted from the card record, although preserved by independent means.

3. Every adverse measure was examined from the standpoint of its sponsor. For example, another set of cards was prepared showing the authors of all adverse measures. Whenever we found that the same member had introduced several adverse measures or was cotroducer of several adverse measures, we concluded his general attitude towards insurance was unfavorable. This theory was certainly borne out by subsequent check.

4. After determining the identity of our opposition, we then established its geographical distribution upon the map. This course was followed in order to find out the activities behind our opposition. In other words, we wanted to know whether the attitude of the particular member was his own personal conclusion or whether it reflected the sentiment of some particular section of the state. In pursuing this theory, it developed that most of our opposition centered around the less densely settled sections of the state—primarily in the north and north central counties.

NATURE OF CONTACTS

The actual contacts with individual members rested primarily with local people. The following methods of approach listed in the order of their effectiveness:

(a) Personal interview by some life representative on intimate terms with the member;

(b) Contact by telephone, telegraph, or letter from the same party where personal interview was not practical;

(c) Interviews by telephone, telegraph, and letters from representative citizens and especially life-insurance policyholders;

(d) Telegrams and letters from the public generally.

The use of these different methods of approach, of course, depended upon the nature of the legislation under consideration.

COOPERATION BETWEEN LIFE AND FIRE INTERESTS

1. In a general conference the entire membership of both Houses was canvassed to ascertain possible contacts through local underwriters. In practically every instance where there was a life contact, there was a corresponding fire contact, due primarily to the larger number of fire than life agents. Comparison of the merits, however, very frequently disclosed that the life contact was more effective than that of the fire and vice versa. Again, in many instances there were fire but no life agents in the home community of a particular member.

2. In a general conference all insurance matters were examined to ascertain those where there was a community of interest between the two groups.

3. In dealing with specific bills where a community of interest did exist, House and Senate membership was canvassed in a general conference to ascertain the probable attitude of the individual members. Where both life and fire representatives were in accord as to probable antagonism of particular members, these received first consideration. In dealing with individual members, our strongest approach was made first. As illustrative, if it was agreed that a life contact was stronger than that of a fire, the life group assumed the initiative of first contacts, which were later supplemented by the fire people. Later developments in many cases clearly disclosed the effectiveness of this program. Briefly, we exploited our strong contacts first. We then followed with every other method of approach we could develop.

SUGGESTIONS FOR NEXT SESSION

Some delay was encountered in legislative work of the 1935 session, due to the fact that we had no immediate contacts with all of the life agents in the State. It took some time to acquaint them with the general legislative situation.

The attitude on the part of some agents at the beginning of the session was one of indifference. This was not due to the fact that they were not in sympathy with our efforts to prevent the passage of adverse measures but rather the fact that they felt there was no danger in any circumstances of the Legislature seriously considering many of these adverse proposals. They went upon the theory that we were merely repeating this session what they had always heard during every other session. Their line of reasoning appeared to be that since every other proposal to increase premium taxes and past adverse measures had been defeated, that the same result would follow the present 1935 session. Considerable time was lost in impressing upon them the seriousness of the situation.

Before the next session, therefore, it is suggested that the agents be personally contacted by the legislative representative of the Association. The work of the Jacksonville group supports this suggestion. On my way to Tallahassee I stopped in Jacksonville and in a general way discussed the matter with the agents and directors. After being in Tallahassee for a week, I then met with the Jacksonville group again and very definitely outlined the situation that confronted us and made suggestions for legislative contacts. The Jacksonville group immediately grasped the situation and rendered most effective service a week or ten days before activities of agents in other sections became noticeable.

RLH.GM.

6/13/35.

EXHIBIT No. 699

[From files of Association of Life Insurance Presidents]

MAY 5, 1935.

MR. FRANK P. DEERING,
c/o Mutual Life Insurance Company of New York,
Jacksonville, Florida.

DEAR MR. DEERING: Senator Futch has just introduced in the Senate a companion measure of House 776, which would increase the premium tax to 6%. It is now necessary that we establish some immediate contacts with all the members of the Senate and the House and unfortunately we have no agents in the home communities of many of these members. Consequently, we have decided to ask you on behalf of the Jacksonville group to establish contact with the following members:

Senators: Herbert C. Harper, Madison.
R. S. Adams, Jasper.
Clayton C. Bass, Live Oak.
F. P. Parker, Mayo.
Dr. S. C. Smith, Lake City.
J. Turner Butler, Jacksonville.
Dr. J. M. Mann, Lake Butler.
A. G. McArthur, Callahan.
H. S. McKenzie, Palatka.
W. A. McWilliams, St. Augustine.
H. G. Murphy, Zolfo Springs.
F. B. Hordman, Daytona Beach.
William Pannill, Brooksville.
C. A. Savage, Ocala.
J. J. Parrish, Titusville.

Representatives: M. A. Best, Branford; Carl W. Burnett, Madison; J. W. Burns, Lake City; Noah B. Butt, Cocoa; Wm. McL. Christie, Jacksonville; M. A. Coogler, Brooksville; O. Lamar Crocker, Trenton; J. D. Dugger, Macclenny; H. M. Fearnside, Palatka; A. B. Folks, Ocala; M. M. Frost, Jacksonville; Bascom O. Hardee, Bronson; J. P. Hatch, Live Oak; J. Clarence Hill, Day; Norman P. Ives, Lake City; Charley E. Johns, Starke; Dan Kelly, Jr., Fernandina; C. Wesley Larson, Green Cove Springs; J. M. McKinney, Cross City; J. N. Miller, Daytona Beach; N. E. Roberts, Lake Butler; John R. Rogers, Lynn; Harry H. Saunders, St. Augustine; Jurant T. Shepherd, St. Augustine; L. E. Wadsworth, Bunnell; Walter Warren, Palatka; W. S. Whiddon, Perry.

In some instances, there are agency contacts in the home communities of some of these members, but it is felt that as a general matter, contacts with these members as indicated can be most effectively made from Jacksonville.

It is thought wise that there should be as many telegrams and telephone calls as possible to reach these members from their respective home communities. This, of course, is a matter with which you are thoroughly familiar. Furthermore, it is advisable to have as many communications as possible from policyholders. These of course are details concerning which you will use your own judgment.

Please be assured of our appreciation of your cooperation in connection with this matter.

Yours sincerely,

ROBERT L. HOGG,
Floridan Hotel, Tallahassee, Fla.

P. S. In addition to the contacts which you will establish we shall also follow up here such avenues as may be open to us.

P. P. S. In contracting members opposition should be directed "to any increase in premium taxes."

EXHIBIT No. 700

[From files of Association of Life Insurance Presidents]

[Copy of telegram]

[Notation: Florida. H. B. 776.]

[Western Union]

Received at corner Monroe Street and Park Avenue, Tallahassee, Flo.
[JNB609 47 DL-Jacksonville, Flo., 6 519P. Date illegible.]

R. L. HOGG,

Floridan Hotel, Tallahassee, Flo.

Letter fifth given consideration. Lengthy session of agency directors' conference today. All members writing all agents to immediately solicit ten letters each from policyholders to representatives. Each name listed taken as individual responsibility of one or more members of conference and quick action promised. Details tomorrow.

F. P. DEARING.

EXHIBIT No. 701

[From files of Association of Life Insurance Presidents]

[Notation: Florida. H. B. 776.]

FLORIDA ASSOCIATION OF LIFE UNDERWRITERS
1935-36

[The National Association of Life Underwriters' seal]

VICE PRESIDENTS

O. A. BOONE, Orlando
CHAS. L. GIBBS, Jr., Miami
ALBERT LITSCHGI, Tampa

J. HALLFRED CHAILLE, C. L. U.
Secretary-Treasurer
916 Graham Building
Jacksonville, Fla.

FRANK P. DEARING, *President*

The St. James Building, Jacksonville, Fla.

[Member Associations: Clearwater, Daytona Beach, Gainesville, Jacksonville, Miami, Orlando, Pensacola, St. Petersburg, Tampa, West Palm Beach]

[Directors: A. L. Baker, Daytona Beach; S. A. Burgess, Miami; J. H. Chaille, Jacksonville; T. C. Cross, Tampa; W. F. Herriek, St. Petersburg; Z. V. Hooker, West Palm Beach; J. O. McNeil, Pensacola; M. M. Parrish, Gainesville; G. A. Pleus, Orlando; H. C. Shaw, Clearwater]

MAY 8, 1935.

Mr. ROBERT L. HOGG,

Hotel Floridan, Tallahassee, Florida.

DEAR Mr. HOGG: By mail last night we sent you seventy-one letters addressed to Senators and Representatives, and as these were put on the train with special-delivery postage, they doubtless reached you early this morning. We will send you the balance of the letters today. We regret that it was not possible to send all of them to you last night, but as we understood that you wanted them to be personal letters, it proved to be quite an undertaking on such short notice.

If the other companies' representatives are having as good luck with their efforts as we have had, I feel sure that there are a number of personal letters from policyholders on the desks of the Senators and members of the Legislature today, and there will be an increasing output of these letters daily from now on.

I enclose copy of a letter written by one of the Sun Life men from Tampa to the Chairman of the Finance and Taxation Committee. It is not much of a letter, but the response from Mr. Sandler on the back thereof is quite enlightening.

Very truly yours,

F. P. DEARING, *President*.

FPD/MH.

P. S. I am keeping a memorandum of the outlay for extra help and overtime work; also, of long-distance calls and telegram tolls, as I suppose the Life Presidents Association will want to defray this cost as in previous years. I know they do not expect Mutual Life to bear this cost, and when we have it all assembled I will get your O. K. on the charge and submit it in the usual way. F. P. D.

[Letterhead of the Florida Association of Life Underwriters]

JUNE 10, 1935.

(Stamped) Rec'd 1935 July-1-AM 8:51.

Mr. R. L. Hogg,
c/o Jefferson Davis Hotel, Montgomery, Ala.

DEAR MR. HOGG: I have been intending to submit statement of expenses incurred here in connection with the recent legislative efforts but have not been able to get them all together as yet.

The extra stenographic work in the office incident to getting out letters to the members of legislature was \$18.60, and telephone calls from the office, \$11.95. In addition to these items there were some telephone calls from the residence of my son, A. P. Dearing, the night we were trying to contact Mr. J. E. Yonge in an effort to locate somebody who could talk to Mr. Robineau in our behalf. These items have not appeared on my son's telephone bill, nor is the Telephone Company able to give them to me at this writing. If agreeable, I will continue to carry the items here until I can get them all together.

With all good wishes, I am

Very truly yours,

F. P. DEARING, *President.*

FPD/MH.

[Copy]

[Letterhead of the Florida Association of Life Underwriters]

JUNE 17, 1935.

(Stamped) 1935 July-1-AM 8:51.

Mr. R. L. Hogg,
c/o Jefferson Davis Hotel, Montgomery, Ala.

DEAR MR. HOGG: Supplementing my letter of June 10th, beg to say that all the charges referred to therein are now in hand, and they are as follows:

Stenographic Work.....	\$18. 60	[Extra—Clerical]
Telephone Calls from office.....	11. 95	[Tel.—Fla. Legis.]
Telephone Calls from Residence 5/6.....	4. 55	
	<hr/>	
	35. 10	

Will you kindly put this into the proper channel for payment, or instruct me how to do so, and oblige.

Very truly yours,

_____, *President.*

FPD/MH.

NOTE.—Notations enclosed in brackets.

JULY 1, 1935.

FRANK P. DEARING, Esq.,
President, Florida Association of Life Underwriters,
The St. James Building, Jacksonville, Florida.

DEAR MR. DEARING: Responding to your letter of June 28th to Mr. Whitsitt with which there were enclosed letters under date of June 10th and June 17th to Mr. Hogg, it is a pleasure herewith to enclose our check in the sum of \$35.10 to cover the expenses for mimeograph work and telephone calls which were handled by the Florida Association of Life Underwriters on behalf of Mr. Hogg.

Very truly yours,

_____, *Statistician.*

CFC:CV
Encl.

EXHIBIT No. 702

[From files of Association of Life Insurance Presidents]

ASSOCIATION BULLETIN SERVICE

This Bulletin is sent in CONFIDENCE for the information of our members. It is intended to advise the companies in the Association from time to time as to current matters of general interest. Its value would be enhanced by contributions from individual members of any information that would be important or interesting to other members. In this way the Association may serve as a Clearing House for the dissemination of information that will be of benefit to the entire membership.

THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS.
MOTT A. BROOKS, Assistant Secretary.

NEW YORK, June 6, 1935.

No. 2397

FLORIDA LEGISLATURE ADJOURNED—6% PREMIUM TAX BILL AND OTHER TAX PROPOSALS FAILED—COMPULSORY INVESTMENT AND SAVINGS BANK LIFE INSURANCE MEASURES NOT ENACTED

The regular session of the Florida Legislature, which convened April 2nd, adjourned on June 2nd.

Although many adverse measures were introduced and pressed for passage, none was enacted. Among the unfavorable proposals were two administration bills to increase the premium tax rate to 6%. One of these was amended to increase the rate to 4%. A third would have increased the present rate from 2% to 5%, while a fourth would have imposed an additional premium tax, on a graduated basis, equivalent to about 1.8%. The latter would have included annuity considerations in the tax base. Two other measures would have imposed a $\frac{1}{4}$ of 1% gross receipts tax applicable to insurance and would have authorized municipalities to impose unlimited license taxes. Another would have broadened the Florida documentary stamp tax law so as specifically to include policy loans in the 10 cents per \$100 tax. As originally drafted, this measure would have applied also to face amount of policies.

Other adverse measures included two compulsory investment bills similar to the Texas Robertson Law, with a premium tax increase of 1% scaled down depending upon investments in the state, and two proposals which would have authorized savings banks to write life insurance similar to the Massachusetts plan.

Among the mortgage measures which failed were bills to provide for a two-year mortgage moratorium, to reduce the contract interest rate, and to restrict the rights of mortgages in connection with deficiency judgments.

Mr. Robert L. Hogg, the Association's Special Counsel, who was in Florida during the major part of the session, reports that outstanding service was rendered by life-insurance representatives throughout the state who cooperated most effectively in connection with the various adverse proposals. Mr. James R. Stockton, President of the Teico Holding Company, of Jacksonville, again ably represented the Association in connection with mortgage matters.

A description of the more important measures of interest follows:

MEASURES ENACTED

- S. C. R. 16----- Creates joint legislative committee to classify and define powers, duties, and privileges of cities and towns. Understand this committee will consider matter of municipal taxation.
- S. B. 104----- Prohibits insurance organizations, including life-insurance
(H. B. 273) companies, from issuing policies payable in other than legal tender. As originally introduced would also have prohibited payment to anyone other than the beneficiary named in the policy.
- S. B. 249----- Makes Blue Sky Law specifically inapplicable to the soliciting,
(H. B. 231) writing, or issuing of contracts of insurance by insurers or agents duly qualified and licensed under the laws of Florida. Eliminates securities issued by insurance companies from definition of exempt securities.
- S. B. 324----- Permits insurance companies to invest in bonds issued by
(H. B. 410) Federal Land Banks and Joint-Stock Land Banks, and in debentures issued by Federal Intermediate Credit Banks.
- H. B. 247----- Authorizes insurance companies, among others, to invest in,
(S. B. 127) or loan upon, certain prescribed securities issued, insured, or insurable under the National Housing Act.

MEASURES WHICH FAILED

- S. B. 3----- To reduce legal interest rate from 8% to 6% and contract rate from 10% to 6%, and to prohibit collection in advance or compounding of interest, resulting in a rate of more than 6% per annum. Substitute measure would have made established legal rate 6% and contract rate 8%.
- S. B. 25----- To require insurance companies to furnish certified copies of policies to any person interested in payment of the proceeds, as assured, beneficiary, or assignee, upon demand and affidavit that original policy had been lost. Would have empowered Commissioner to suspend a company's certificate of authority for failure or refusal, for more than 15 days, to furnish such copies. Would also have required companies to furnish proof of loss forms within 15 days after written demand. Failure to do so would have been deemed waiver of provision requiring proof of loss, but not acknowledgment of liability. Amended to limit application of bill to policies and contracts delivered in Florida, to increase the period for notice to 20 days, to require notice and hearing before a company's license could be revoked, and to limit the right to demand proof of loss blanks to the insured or persons entitled to the proceeds.
- S. B. 103----- To impose additional premium tax at rate, in the case of life, health, and accident insurance, of \$200 on gross annual premiums of \$7,000 or less and \$180 for each additional \$10,000 or fraction thereof. Annuity considerations also would have been included in this additional tax. Tax would have been reduced to one-third, if one-eighth of a company's total admitted assets were invested in prescribed Florida securities.
- S. B. 148----- To grant liens to hospitals, nurses, and medical practitioners, (H. B. 145) after written notice had been served and recorded on patient or insurer, or filed in court. Sufficiently broad to cover double indemnity and disability benefits.
- S. B. 172----- To reduce contract interest rate from 10% to 8%.
- S. B. 300----- To abolish all occupation licenses.
- S. B. 389----- To amend law, requiring alien companies to have \$250,000, (H. B. 488) foreign companies \$200,000, and certain domestic companies \$100,000, invested in prescribed securities, so as to require insurance companies to have \$200,000 invested in somewhat different securities. Also would have permitted State Treasurer, after notice and hearing and subject to appeal, to revoke certificate of authority of foreign companies, if, in his judgment, it would best promote the interests of the people of the state.
- S. B. 391----- To prohibit foreign insurance companies from doing business (H. B. 586) in state except through licensed resident agents. Amended to exempt life-insurance companies and their agents.
- S. B. 481----- To authorize Boards of County Commissioners to deduct (H. B. 738) from salaries of county employees premiums due upon insurance and pay same to insurance companies entitled thereto.
- S. B. 532----- To authorize savings banks to write life insurance in manner (H. B. 573) similar to Massachusetts Law.
- S. B. 533----- To require life-insurance companies to have 75% of their (H. B. 541) Florida reserves invested in designated "Florida securities." Would have imposed on foreign life companies an additional premium tax of 1% graduated down to $\frac{1}{10}$ of 1%, $\frac{3}{10}$ of 1% or no additional tax, depending upon whether as much as 30%, 60%, or 75%, respectively, of the Florida reserve was invested in mortgages or other liens on Florida real estate. Would have subjected withdrawing company to tax on future premium collections before reentering state to do a life-insurance business.
- S. B. 634----- To impose a 4% tax—in addition to the present 2% tax—on gross premiums of insurance companies, less return premiums and premiums paid for reinsurance in authorized companies.

- S. B. 656----- To exempt proceeds of life-, accident-, or health-insurance policies from debts of the beneficiary, or any person having a right under such policies.
- S. B. 800----- To empower cities and towns, by ordinance, to levy and collect license or excise taxes, without limitation, upon privileges, businesses, occupations, and professions.
- (H. B. 117)
- S. B. 847----- To impose 3% tax on sales of merchandise and "property" and on certain amusements. Insurance companies specifically exempted. Amended to impose a $\frac{1}{4}$ of 1% gross receipts tax on individuals and corporations, exempting "premiums collected by insurance companies upon which a tax is levied by the laws of this state." Amended to eliminate foregoing exemption, but to exclude certain policy proceeds.
- § B. 1002----- Similar to Senate Bill 847 in its original form.
- S. B. 1017----- To amend intangibles tax law so as to increase the rates and provide for the assessment of the tax by the state rather than by the counties.
- H. J. R. 17----- To amend Constitution so as to authorize Legislature to impose income taxes, without specific provision for reasonable exemptions.
- H. J. R. 53----- }
H. J. R. 64----- } Similar to H. J. R. 17.
H. J. R. 1388----- }
- H. B. 116----- To permit guardians to invest funds of infant wards in paid-up life insurance.
- H. B. 132----- To reduce legal interest rate from 3% to 6% and contract rate from 10% to 6%.
- H. B. 204----- To reduce legal interest rate from 8% to 6% and contract rate from 10% to 8%.
- H. B. 212----- To prohibit publication by newspapers of advertisements of unauthorized insurance companies.
- H. B. 265----- To exempt proceeds of health, accident, or disability insurance from claims of creditors of the insured, unless the policy was effected for the benefit of such creditors.
- H. B. 283----- Similar to Senate Bill 1002.
- H. B. 283----- Similar to House Bill 132.
- H. B. 289----- Similar to House Bill 204, except would have specifically exempted contracts executed prior to its enactment.
- H. B. 295----- Similar to Senate Bill 1002.
- H. B. 361----- To increase premium tax rate to 5%.
- H. B. 385----- To impose 3% tax on sales of tangible personal property and on certain businesses, including insurance.
- H. B. 401----- To repeal documentary stamp tax.
- H. B. 577----- To restrict the rights of mortgagees in connection with deficiency judgments by requiring foreclosure action to precede an action at law to collect the mortgage debt, by requiring suits for a deficiency to be commenced within three months of the confirmation of sale, by requiring the fair market value as determined by the court on a defendant's application to govern the size of the deficiency judgment, and by providing that the recovery of a deficiency should open up a foreclosure giving a six months' period of redemption if the persons liable did not dispute the amount of the deficiency.
- H. B. 578----- To prohibit for two years the foreclosure of any mortgage on real property, used or intended to be used for dwelling purposes by the owner or his family, on account of any default in the payment of the principal.
- H. B. 579----- To permit courts, during the next two years, to postpone foreclosure sales, during which postponement payment of a reasonable rental would have been required to be applied on taxes, insurance, interest, and the mortgage indebtedness, and to permit resales where the sale price was found to be unreasonably inadequate.
- H. B. 760----- To authorize guardians of infants or disabled persons to invest funds of such wards in excess of \$5,000 in annuities purchased from admitted insurance companies.

- H. B. 776----- Same as Senate Bill 634. Substitute measure would have increased present premium tax to 4% instead of imposing an additional 4% tax.
- H. B. 1095----- To broaden documentary stamp tax law so as, among other things, specifically to impose tax of 10 cents per \$100 on policy loans, premium notes, and premium extension agreements. Amended to eliminate this provision. As originally drafted would also have imposed such tax on the face amount of policies.
- H. B. 1182----- To impose 2% tax on sales of tangible personal property and certain services. Sales of insurance specifically exempted.
- H. B. 1282----- Similar to Senate Bill 1002.
- H. B. 1317----- To empower cities and towns with populations of from 30,500 to 70,000 to change and control by ordinance "any and all matters relating to the assessment of taxes in such city or town."

EXHIBIT No. 703

[From files of Association of Life Insurance Presidents]

[Notations: *Strictly personal.* Georgia General.]

[Initialed: R. L. H.]

ATLANTA, GA., February 25, 1935.

(Stamped) 1935 Feb.-28-AM 10:01.

Mr. ROBT. L. HOGG,
Special Counsel, The Association of Life Insurance Presidents,
165 Broadway, New York City.

Dear Mr. HOGG: On general principles, as we are taking up our duties again today after a three-day vacation, while the legislature has junketed, we would like to say that we appreciate the arguments furnished us, and this Committee assimilates same and uses them where practical. There is not the same disposition, however, to regard the altruism of the situation as there was at the time when the money was less needed. So, unofficially, we make the following statement. It has been our practice for years:

1—To try to persuade the author of a bill, either before its introduction or after introduction and reference to a Committee, to withdraw same. This has worked out oftener than might be thought.

2—We make effort in advance, as described to you, to have friends on the Committee and to have meetings at the proper time and under favorable environment. This has frequently worked out.

3—If we do not succeed in getting a bill adversed, we try to introduce another bill, hoping that the whole thing will wind up in a row, to be plain about it. This has worked out at this session, and I will add in passing that we have one man, that if any bill comes out on the floor, to get up and say that he does not believe in taxing life-insurance premiums at all and create a diversion in that way.

4—If a bill passes either house and goes to the other house, we try to repeat the above tactics.

5—At this session, particularly, we have considerable confidence in the Governor's statement that he will veto any tax increase. His language, however, was "citizens of Georgia," but we hope, if any bill should pass both houses, to show him that the taxes rest on the citizens of the State of Georgia.

One of our Committee is an intimate personal friend of the Governor, and on his staff. We have not told you that before. He interviewed the Governor, who expressed himself in favor of a change to a 2¼% tax. I think we wrote you that. We are going to ask for an interview tomorrow and try to feel out, without offense, the Governor's position on all of these bills, including moratorium bills. Though I repeat that I believe we are going to have to face something on that line.

The above statement of method of operations to which we add a final assurance that we shall try to kill anything inimical, and if anything gets through of that description it is simply because we cannot stop it by any method known to us or any proper practice which we have at hand.

Yours very truly,

R. L. COONEY.
 S. M. CARSON.
 ——— ALLEN.

[Notation: Georgia General.]

[Initialed: B.]

FEBRUARY 27, 1935.

ROBERT L. COONEY, Esq.

*Inspector of Agencies, New York Life Insurance Company,
Grant Bldg., 44 Broad St., N. W., Atlanta, Ga.*

DEAR MR. COONEY: The joint letter of Mr. Allen, Mr. Carson, and yourself, touching upon the general legislative situation, has been received and read with interest. We know under present conditions the work of your committee, as well as of our other representatives in various states, is extremely difficult and that, as you indicate, the material we furnish you for presentation to the members of the Legislature does not receive the consideration which it merits.

I assure you that the Association appreciates the aid and close attention given to all these matters pertaining to life-insurance companies and their policy-holders.

With my kind regards, I am,

Yours sincerely,

_____, *Special Counsel.*

RLH.GM.

Via air mail.

EXHIBIT No. 704

[From files of The Association of Life Insurance Presidents]

[Notation: Georgia General.]

[Initialed: H. R. C.]

NEW YORK LIFE INSURANCE COMPANY

Grant Building, 44 Broad Street NW., Atlanta, Ga.

ROBT. L. COONEY, Inspector of Agencies, P. O. Box 237

Southern Department: Virginia, North Carolina, South Carolina, Georgia, Florida, Atlanta

MARCH 22, 1933

(Stamped) In Mar. 24-33.

Mr. CHARLES F. CRESWELL,

*Statistician, Association of Life Insurance Presidents,
165 Broadway, New York City.*

Dear Mr. CRESWELL: Our legislature has adjourned sine die, and we have the honor to make the following report.

There has been so far no call for an extra session. It is regarded, however, as inevitable that there will be such a session. We hope not.

We enclose copy of an editorial appearing yesterday, calling attention to the fact that no revenue measures were passed and that our Appropriation Bill calls for more money than present income will pay. Also that a revision of the General Tax Act will probably take place.

We report our failures first:

We had a bill introduced at the request of our Comptroller General, to reorganize his Department and to give him enough force to carry out the provisions of the law for the protection of our legitimate agents and legitimate companies, who pay their license fees and taxes. This bill passed the House after quite a squabble, 105 to 4. Just where the opponents were on the final show-down, we do not know, but when the bill was brought out for vote, it turned out that the original bill had been stolen or mislaid—that is, the one the Insurance Committee had passed—and another bill which the Insurance Committee had turned down was produced, as the bill which was to be voted on. This was corrected, and our bill passed, as stated, 105 to 4. It also passed through the Senate Committee, was put on the calendar of the Senate, was ready to be called up, when our Governor suspended all activities until a bill could cross from the House to the Senate, which bill exonerated him from an accusation of misappropriating \$25,000 during his term in a previous office. This bill was passed, and was the only bill passed after twelve o'clock at night, Saturday, after a public statement by the Governor that he would veto every bill that was passed after that hour. He did not, of course, veto this.

We had prepared a resolution requesting a revision of the Insurance Code. Our friends had this ready in the House, but were beaten to it by a Senate resolution

by a very antagonistic Senator named Sisk, who had tried to put the State, in previous bills which were defeated, into the insurance business, to have rates named by law, moratorium bills, etc. The Sisk resolution got through the Senate—how, we do not know. It was through before we heard of it. It was, however, smothered in the Insurance Committee in the House. Our bill was drawn so closely describing the men to be named on the Committee, or rather, their characteristics, that we felt certain that we knew the men who would revise the Code. Some attention may be paid to this, for it will probably come up at an extra session, if held, under the guise of a Revenue Bill, and if you have any suggestions or an ideal Code, please send it to us; it is probable that we can put such through.

We are hoping to get into such a Code a provision for taxation, possibly specifying that when the State gets in condition to do so, that insurance taxes may be *solely for the benefit of the Department* which has supervision. If this can be done, it would be a pretty good start. It is possible that we can do it, though we do not make any statement positive to that effect.

We did put through, and they are either signed or awaiting the Governor's signature, which we feel reasonably certain of securing:

1—A bill to license agents from other States. This has been done for the last year by construction. As it stands now it is mandatory.

2—There were some ten to fifteen moratorium bills introduced. We have had considerable correspondence over this. We predicted to you in the beginning that our friends had arranged to merge these, all in one bill, and put before a committee favorable to us (we think we detailed this to you), who would either write a moratorium bill, if necessary to placate the mob, which would not have many teeth in it, or else lose it in the shuffle. At one time we were afraid that the rewritten Senate Bill 59 (copy of which you have) would go through, but the very author of this bill, or the authors, thereof, after discussion in the Senate, shunted it into the discard, *and no moratorium bills of any kind were passed*. This was as difficult a piece of work, requiring as much judgment and careful action as anything we have ever taken hold of.

3—A bill which will exempt from levy or execution the proceeds of any life policy in favor of a wife and children.

4—The Hon. J. W. Culpepper (previously our friend and our friend again now), previously Chairman and now on the Ways and Means Committee, gave notice that he would introduce a 3% tax bill. One of our committee had supper with this gentleman and a long interview afterwards. This bill never made its appearance.

5—The Hon. J. Scott Davis, of Cedartown, Georgia, *had prepared, by the Attorney General of the State*, a bill increasing our taxes to 2½%. One of our committee entertained this gentleman and some of his friends, and after an argument on the merit of the case, the Hon. Davis withdrew this bill.

6—The Hon. Orville A. Park, of Macon, Georgia, introduced a bill, had it read once, referred to Ways and Means Committee, which bill would have increased insurance premiums to 3%, but eliminating municipals. We likewise obtained an interview, through entertainment, with the Hon. Park, the result of which was his statement then that he would withdraw this bill, and that he was sufficiently convinced of the merits of the case to promise opposition to any other bill of the kind that might come up, and to ask for the appointment of a committee to inquire into insurance taxes and make a report to the next session. It was the appointment of this committee for which we hoped, which was referred to in one of our letters to the effect that we might be able to communicate to you some good news. We think that we could predict here what the result of that report would have been, and it might possibly have settled the tax question for years to come.

On the whole, while it has taken a great deal of time and effort, in fact, practically every day and many of the nights during this session, and the expenditure of considerable money, we might say that we have come through without a scratch.

We think it is fair at this time to call your attention to two matters:

One is the amount of time that each one of our committee has taken from his own Company and his own business. This is not a suggestion for remuneration. It would not be offered and *neither would it be accepted if offered*. But the question is, if there is an extra session, after two-and-a-half months practically out of the field, to the detriment of our individual records, whether or not we should ask for specific instructions from our companies as to giving that much more time during one year, and proper understanding of this time spent away from our contract duties.

The second is the matter of money. These efforts have been expensive. We have our own method of working, and whether or not those are entirely approved, they have been, so far, successful. Early in the session we advised you of the employment of Mr. Russell R. Whitman, who handles an information service which has proved valuable. Before the next session, if our committee goes on with these duties, we shall recommend a different character of service. We think such may be obtained, which will save us individually a great deal of time, and that it can be done at less final expense. A bill for the service of Mr. Whitman is herein. I think you wrote that the Association would pay this. At any rate, they should. We mention here that, roughly speaking, the expense in money to members of our committee, no part of which has been paid by anybody else, has been about \$500.00. About \$30.00 of this was for cab fares to and from the Capitol, on hurry calls from our friends, or to get bills just introduced and before the service people were in position to get them. NOT ONE CENT FOR ANY PURPOSE THAT IS NOT LEGITIMATE, or which any other man, if he worked as we work, would not have incurred. We might mention in passing that we believe in killing a bill before it gets on the floor, or before a committee, if possible. It is much easier to handle one man or two men alone than it is to argue with a whole committee, and it is impossible to argue with the whole House. This money has been spent in invitations to those of whom we wished to make friends, and seeing that their wives and daughters were looked after properly and courteously, and a large portion of it in giving a dinner after the session was over to all of those who were good enough to favor us. We have been told that one reason we are kindly received is that we do not forget favors after we get them. The other is that we do not seek to interview members of the legislature while they are in their seats, going through the lobbies, or stop them at their lunches, as most people do. It is impossible for us to continue to bear this expense, and in our opinion it is impossible to do successfully the work any other way. The results in other places along a different system should have some bearing on the interpretation of this statement. We are perfectly willing to obey instructions, each of his own Company, and also instructions as to how to handle this, if our own methods do not meet entire approval and final support. This is a question to which we ask you to give consideration. We have given this service gladly. We really do not believe that the same results could have been accomplished any other way, and the effect of it, at any rate, is indicated by the simple statement that if there is no other session for the next two years, that at least about a Million-and-a-Half Dollars of taxes have been saved to the life companies in the Association. This increased sum would have been the result of the passage of any one of the tax bills to which we have referred above, by chapter and verse.

Yours very truly,

R. L. COONEY.
S. M. CARSON.

RLC-k.

EXHIBIT No. 705

[Notation: From W. H. Pierson's file marked "Robt. L. Cooney."]

NEW YORK LIFE INSURANCE COMPANY

Grant Building, 44 Broad Street, N. W., Atlanta, Ga.

ROBT. L. COONEY, Inspector of Agencies, P. O. Box 237

Southern Department: Virginia, North Carolina, South Carolina, Georgia, Florida

MARCH 1, 1938.

Personal.

Mr. W. H. PIERSON,
Vice President, New York Life Insurance Co.,
New York City.

DEAR MR. PIERSON: Your letter of February 25. I have already bought the extra-size hat. I did that some years ago. It has been about twenty years, you know, since anything was done to insurance companies in Georgia.

They have remitted to me all of the expenses that would be proper to charge up. There are some, of course, that do not go into an account of this kind. And I am

going to say in passing that (admitting of course that we have been rather successful in heading off legislation) the method is to interest ourselves in keymen before they are elected, help them to get elected, and then they owe us something instead of our owing them. That is the whole secret.

Incidentally, I am going to send you a slip cut from the paper of yesterday. I think that you and I have rather agreed that we ought in some way to enlist our policyholders, and I am inclined to think that present conditions indicate the integrity of that judgment. If we don't, apparently somebody else will.

This letter is off the record and intensely personal to yourself.

All I want to say now is, that I am delighted to see your regular signature again and to note that you are apparently right on the job once more. May that last a long, long time.

With my best regards.

Yours very truly,

R. L. COONEY,
Inspector of Agencies.

RLC-k.

[Notation: No ans. P.]

EXHIBIT No. 706

[From files of The Association of Life Insurance Presidents]

[Notation: Georgia General 1939.]

[Initialed: C. W. S.]

NEW YORK LIFE INSURANCE COMPANY

Grant Building, 44 Broad Street, N. W., Atlanta, Ga.

ROBT. L. COONEY: Inspector of Agencies, P. O. Box 237

Southern Department: Virginia, North Carolina, South Carolina, Georgia, Florida

NOVEMBER 21, 1938,

(Stamped) Received 1938 Nov. 23 AM 8:54.

Mr. CHAS. F. CRESWELL,

Statistician, The Association of Life Insurance Presidents,

165 Broadway, New York City.

DEAR MR. CRESWELL: Here is a bid from Mrs. Frances Moore for service at the coming session of the Georgia Legislature, beginning January 9. I will not be here the first days of the session as our Annual Meeting at Saint Petersburg begins January 9. You will notice her bid is \$90.00, plus copies of bills at \$1.00 per original page and 50¢ per page for carbon copies. I do not know just what she means by this, but as she says it is the same as last year, and if it is, I think we had better have the service. In this Mr. Carson agrees with me.

Of course we have to have copies of these bills to study them, but Ed. Bradley, of a local newspaper, has access to the floor of the House and a partner, so to speak, on the floor of the Senate. For \$100.00 this man will keep his eyes open, not only for the introduction of bills, but for the talk that goes on before a bill is¹ introduced, and this service has proven very valuable to us and has enabled us to abort on occasion the proposed tax measures. I think we should have this service, and I hope we will have your approval.

Very truly yours,

R. L. COONEY.

RLC/S.

¹ Underscored in ink.

EXHIBIT No. 707

[From files of The Association of Life Insurance Presidents]

[Notation: Georgia General.]

[Initialed: R. L. H. C. B.]

NEW YORK LIFE INSURANCE COMPANY

Grant Building, 44 Broad Street, N. W., Atlanta, Ga.

ROBT. L. COONEY, Inspector of Agencies, P. O. Box 237

Southern Department: Virginia, North Carolina, South Carolina, Georgia, Florida

MARCH 3, 1937,

(Stamped) Rec'd. 1937 Mar. 4 PM 1:17.

Mr. ROBERT L. HOGG,

*Assistant General Counsel,**The Association of Life Insurance Presidents,**165 Broadway, New York City.*

DEAR MR. HOGG: Speaking generally. Yesterday the General Tax Act was introduced, and we have been unable to get a copy of it, though I am having it read now.

This morning the Income Tax Bill was introduced. This is another bill on which we were promised a hearing, which we were not given. That particular method seems to be prevailing. What I mean is, they are going to railroad some of these bills, and I just do not know what to do about it.

We have made five or six friends who will oppose on the floor of the House any increase whatever in premium taxation. A typical letter from the Hon. J. B. Joel is herin, together with copy of my reply.²

I have replied in this way because I have understood this morning, to repeat the expression used to me, that I am a marked man.¹ I have the privilege of the floor and I have been down to the legislature several times, possibly a dozen or more. The Speaker of the House has made the public statement that he does not wish any member to accept any invitation given by any person who has any interest in legislation before the house. I will try to deal with this later.²

Yours very truly,

R. L. COONEY,
Inspector of Agencies.

RLC-k.

[Notation: No answer. R. L. H.]

EXHIBIT No. 708

[From files of The Association of Life Insurance Presidents]

[Notation: Georgia. H. B. 272.]

ATLANTA, GA., February 26, 1937.

ATLANTA NYLICS:

Since the middle of January I have been so busy fighting any increase in premium tax that I have hardly had time to do anything else.

You know when we insure a man we persuade him to tax himself to keep his dependents from taxing others after his death, and it is really not fair to levy any tax on premiums in any amount except enough to pay for supervision. We are paying in Georgia today a little more than the average in the United States. There is a bill to increase this. The rate of percentage as named in the bill now under consideration would make taxes here higher than anywhere else in the country.

Your senator or your representative will probably be back home tomorrow. The Legislature adjourns this afternoon until Monday. I want you, for the sake of your own business and for your policyholders, whom we are bound to protect, to see this representative or senator personally and urge against any increase in premium taxation in this State for the reasons above named.

I feel sure that you will do this, and I am going to repeat to you that I have been giving all my time to it for the last month, and I do it because I think it is fair to the policyholders, out of whom we make our living. That's the plain fact in the long run, so kindly do this for me.

¹ Underlined in ink.² Notation in margin of last 2 paragraphs: "Copy in file Georgia. H. B. 272."

I am glad to tell you that the business this year is 50% ahead of last year, and I hope you have had your share. I have wanted to see every one of our agents, and I will do that as soon as the matter that has been so serious is over.

Good luck to you, and see if you can't send me an application by return mail. Address it to me personally and I will see that it gets to the right place.

Very truly yours,

R. L. COONEY,
Inspector of Agencies.

RLC/S.

EXHIBIT No. 709

[From files of New York Life Insurance Co.]

NEW YORK LIFE INSURANCE COMPANY

Grant Building, 44 Broad Street, N. W., Atlanta, Ga.

ROBT. L. COONEY: Inspector of Agencies, P. O. Box 237
Southern Department: Virginia, North Carolina, South Carolina, Georgia, Florida

JULY 5, 1934.

Personal.

Mr. W. H. PIERSON,
*Vice President, New York Life Insurance Co.,
New York City.*

DEAR MR. PIERSON: Please let me write you in a personal way. Last week I went to Rome, Ga., and invited to lunch twenty men, whom I happen to know, large policyholders. Every one of them in our Company, and, of course, with other companies, too, some of them. The twenty men carry a Million-and-a-Half of life insurance.

I talked to them some about the taxation of premiums, as I am sure we are going to have a world of trouble with the next legislature. We have laid some foundation, I think, on which to build, to stall this. But what I want to say is, that I asked these men (and repeat, in a most personal way, they understanding that no company had anything whatever to do with it, but that I was inviting them and meeting them as a fellow policyholder) what they would do if it were indicated that this, that, or the other man would vote to increase the tax on their premiums. Their response was to name the man who would do that and they would do the best they could to keep him from going to the legislature again. This is a straw.

Yours very truly,

R. L. COONEY.

RLC-k.

EXHIBIT No. 710

[From files of The Association of Life Insurance Presidents]

[Notation: Georgia General.]

Initialed: R. L. H. V. P. W. C. B.]

NEW YORK LIFE INSURANCE COMPANY

Grant Building, 44 Broad Street, N. W., Atlanta, Ga.

ROBT. L. COONEY: Inspector of Agencies, P. O. Box 237
Southern Department: Virginia, North Carolina, South Carolina, Georgia, Florida

FEBRUARY 12, 1937,

(Stamped) Rec'd 1937 Feb-15-AM 8.32.

Mr. ROBT. L. HOGG,
*Assistant General Counsel,
The Association of Life Insurance Presidents,
New York City.*

DEAR MR. HOGG: Your letter of February 5th. The "Perry" to whom I referred in my letter is Perry Mullinax, our Agency Director at Savannah, and we have stirred up activity all over the State. All the insurance associations have protested, and I ventured to suggest a little reprisal some day on the part of policyholders. That has made several of them sit up and pay attention.

Now in regard to a young lawyer, we may have to employ one yet. If we do, of course we will advise you. I do not think it will be necessary to do anything from the Home Office in regard to contacting the Associations. We have got them pretty well stirred up.

Very truly yours,

R. L. COONEY,
Inspector of Agencies.

RLC/S.

EXHIBIT No. 711

[Notation: From V. P. Pierson's file marked "Robt. L. Cooney."] 5 (b) LCM

NEW YORK LIFE INSURANCE COMPANY
Grant Building, 44 Broad Street, N. W., Atlanta, Ga.

ROBT. L. COONEY: Inspector of Agencies, P. O. Box 237
Southern Department: Virginia, North Carolina, South Carolina, Georgia, Florida

MARCH 5, 1934.

Personal.

MR. W. H. PIERSON,
*Second Vice President, New York Life Insurance Co.,
New York City.*

DEAR MR. PIERSON: Referring to my letter of March 1st, marked "strictly personal," and in regard to the possible employment of Judge E. M. Davis, of Camilla, in what we call the *Lannie Thompson case*, originally in the hands of our attorneys, Messrs. Lawton & Cunningham of Savannah. The interview to which I referred there took place yesterday, and I rather think that the point suggested as likely to be made, was made to good effect—I do not know.

There is another angle that before dismissing the case, and if I am out of order that will end it, and as briefly as I can put it, it is about as follows: As I told you sometime ago, we are looking to put action into the next legislature which will relieve, or rather deprive, the municipalities and counties of the right to tax. There will be two or three bills before the next legislature, unless I am badly mistaken, to increase our taxes to 2½% or 3% and leave the municipalities as they are. Of course, we will fight these. The outcome under present conditions of necessity is, of course, unpredictable at this time, but we are going to do our best. We have in line the man who was the Speaker of the last House. He is again a candidate, and our Association is going to back him in such shape as will make the matter entirely personal. There will be no come-back on account of that action. The Governor of this State has been very antagonistic, but in a recent interview it seems that he will authorize, and I am quite confident where it came from, a statement that he thought that the powers of municipalities and counties should be rigidly limited. Please see newspaper clipping herein. We have urged those who are our friends along this line, not to announce the revised point of view too suddenly, so to speak, but to work up to it gradually.

Judge Davis, I make the statement unreservedly, has the reputation in the legislature of knowing more general constitutional law than all the rest. He is one of two men to whom the legislature listens with the greatest respect, and has been on the Law Committee at every session that has attended. We are going to need him in the legislature to cover the constitutionality of an act depriving municipalities of the right to levy taxes, and that is the principal reason why I would like to see him in this *Lannie Thompson case*, aside from the fact that, as said in my letter of March 1st, I believe that the respect in which he is held will be a material factor in securing a change in the point of view of our Appellate Court, one of whose Judges did me the honor to discuss that situation academically yesterday.

As recited in the beginning of the letter, if I am out of order I will promise not to bring up this subject further.

Yours very truly,

R. L. COONEY,
Inspector of Agencies.

RLC-k.14-INS-5.

EXHIBIT No. 712

[From files of The Association of Life Insurance Presidents]

[Notation: Georgia S. B. 21.]

[Initialed: H. R. C.]

NEW YORK LIFE INSURANCE COMPANY

Grant Building, 44 Broad Street, N. W., Atlanta, Ga.

ROBT. L. COONEY: Inspector of Agencies, P. O. Box 237

Southern Department: Virginia, North Carolina, South Carolina, Georgia, Florida, Atlanta

FEBRUARY 8, 1933,

(Stamped) In Feb. 10, '33.

MR. CHARLES F. CRESWELL,

*Statistician, The Association of Life Insurance Presidents,**165 Broadway, New York City.*

DEAR MR. CRESWELL: You wrote me on February 2nd in regard to Senate Bill No. 21, suggesting some amendments.

The easiest way to handle this bill is to kill it. I think that has been done. The First National Bank of Valdosta, Ga., is the financial backer of the Hon. Nelson, who introduced the bill. I hand you copy of a telegram that was sent to Senator Nelson yesterday by this bank, at the instance of one of our agents, Ex-Senator E. E. Dekle, to wit.

I have an idea that the bill will now be withdrawn.

Yours very truly,

R. L. COONEY,
Inspector of Agencies.

RLC-k.

[Copy]

CONFIRMATION

We sent you a telegram this date per The Western Union Telegraph Company of which the following is a correct copy:

FEB. 7TH, '33.

Hon. H. W. NELSON,

Senate Chamber, Atlanta, Georgia:

We believe passage of Senate Bill twenty-one detrimental to business interests of Georgia. Hope you will not urge its passage.

FIRST NATIONAL BANK, VALDOSTA, GA.,
By JAS. Y. BLITCH, *President.*

FEBRUARY 10, 1933.

[Initialed: B. H. K.]

Re Georgia Senate Bill 21.

ROBERT L. COONEY, Esq.,

*Inspector of Agencies, New York Life Insurance Company,**P. O. Box 237, Atlanta, Georgia.*

DEAR MR. COONEY: Thanks for your letter of February 8th, with regard to the above-numbered bill, in which was enclosed a copy of a telegram. We much appreciate this reassuring information and trust that the measure will not now be seriously pressed for passage.

Very truly yours,

—————, *Statistician.*

CFC:V.

EXHIBIT No. 713

[From files of Robert L. Cooney, Atlanta, Ga.]

[Copy]

INSURANCE DEPARTMENT,
STATE OF GEORGIA,
Atlanta, December 1st, 1934.

Mr. ROBERT L. COONEY,
New York Life Insurance Company,
Atlanta, Georgia.

DEAR MR. COONEY: A few days ago I had a call from Mr. Harold Dobbins, who seems to have an agency contract with you and who is very much concerned about the payment of his occupation tax, although it had been my previous understanding that the company takes care of such matters for its agents. In any event, Mr. Dobbins gave me the impression that he was called on to pay this tax and that by reason of his inability so far to close some business, although he said he had some under way which he expected to close if he could hang on, he found himself unable at this time to pay the tax levied against him and asked whether or not it could be allowed to run along for a little while unpaid.

I did not take up the above matter with Miss Nagle, although she is in direct charge of, and has supervision in, the matter of occupation-tax, collection, and license fees. My plan was rather to take it up with you, in the thought that under all of the circumstances you might feel that it would be a good "investment" for the company to meet this expense, at least for the time being, in view of the fact that Mr. Dobbins is again scheduled, I understand, for the Chairmanship of the Insurance Committee and his good will might be worth keeping.

Think it over, and destroy this letter when you have its contents in mind. I do not want to be put in position of advocating something out of the ordinary, hence this is purely a personal expression of opinion and in no way touches my official stand.

I am hoping to be in St. Petersburg most of next week, although it is barely possible that something may come up at the last minute to keep me here.

With kindest personal regards, I am,

Sincerely yours,

(Signed) LEWIS A. IRONS,
Deputy Insurance Commissioner.

LAI/m.

EXHIBIT No. 714

[From files of Association of Life Insurance Presidents]

[Notation: Georgia. H. B. 179.]

[Initialed: R. L. H. C. B.]

NEW YORK LIFE INSURANCE COMPANY

Grant Building, 44 Broad Street, N. W., Atlanta, Ga.

ROBT. L. COONEY: Inspector of Agencies, P. O. Box 237

Southern Department: Virginia, North Carolina, South Carolina, Georgia, Florida

FEBRUARY 12, 1937,

(Stamped) 1937 Feb-15-AM 8:32.

Re House Bill 179.

House Bill 180.

Mr. ROBERT L. HOGG,
Assistant General Counsel, The Association of Life Insurance Presidents,
165 Broadway, New York City.

DEAR MR. HOGG: Your telegram of yesterday concerning House Bill 179.

There were two bills by Daves of Dooley. Daves being one of our examiners. We were promised a hearing by the Chairman of the Subcommittee. We went to the hearing and remained two and a half hours without the Committee meeting. The Chairman gave another assurance as to a hearing. Bill 179 apparently was put through in what might be called a secret meeting.

Bill 180, which related to the character of notes which could be taken by life insurance companies, was withdrawn.¹

We are after 179. I have an engagement with Dr. Daves, and I expect we can get this one withdrawn. There has been quite considerable pressure put on him. It is a foolish bill.¹

Yours very truly,

R. L. COONEY,
Inspector of Agencies.

RLC-k.

[Notation: Mentioned to me over phone. No answer. C. J. C.]

¹ Notation in margin of last 2 paragraphs: "Copy in file Georgia. H. B. 180."

[Letterhead of New York Life Insurance Company]

MARCH 4, 1937,
(Stamped) 1937 Mar.-6-AM 8:52.

MR. ROBT. L. HOGG,
*Assistant General Counsel, The Association of Life Insurance Presidents,
165 Broadway, New York City.*

DEAR MR. HOGG: Bill #179, by Daves of *Dooly*,¹ was *duly*¹ and finally killed yesterday. This writer had rather a salty interview with the gentleman, who happens to be examiner for various life-insurance companies. He promised to withdraw the Bill first, to amend it afterwards. I am getting a copy of the Bill as it was killed, and if he did not amend it as he said he would or indicated he would, I do not think he ought to have any more examinations.

Very truly yours,

R. L. COONEY.

RLC/S.
Air mail.

¹ Underscored in ink.

EXHIBIT No. 715

[From files of Association of Life Insurance Presidents]

ASSOCIATION BULLETIN SERVICE

This Bulletin is sent in CONFIDENCE for the information of our members. It is intended to advise the companies in the Association from time to time as to current matters of general interest. Its value would be enhanced by contributions from individual members of any information that would be important or interesting to other members. In this way the Association may serve as a Clearing House for the dissemination of information that will be of benefit to the entire membership.

THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS.
MOTT A. BROOKS, *Assistant Secretary.*

NEW YORK, April 8, 1935.

No. 2354

GEORGIA LEGISLATURE ADJOURNED—PREMIUM TAX INCREASE, AUTOMATIC PREMIUM LOAN AND COMPULSORY DEPOSIT PROPOSALS FAILED

The Georgia Legislature, which convened on January 14th, adjourned on March 23rd

Among the proposals failing were an increase in the state gross premium tax rate from 1½% to 2½%; an increase to 3% and prohibiting municipal premium taxation; and an increase to 2% but allowing certain dividend deductions, limiting municipal taxation to ½ of 1%, and eliminating certain agents' fees. Another premium tax measure, also failing, would have changed the state rate to 2¼% but allowed certain dividend deductions, prohibited municipal taxation and eliminated certain agents' fees. A bill failed which would have imposed a tax on intangibles—specifically including policy reserves and possibly broad enough to include mortgages and policy loans—as did another to enact an adverse automatic premium loan statute. A complete insurance code bill was introduced but failed. Among other things, it would have required a \$100,000 deposit of foreign companies for the benefit of Georgia policyholders.

Although a number of measures which would have affected mortgage loans were introduced, only one was enacted. The new law will tend to restrict the amount of deficiency judgments obtained in connection with foreclosures by power of sale.

Credit in large measure for the favorable outcome is due to Mr. Robert L. Cooney, Inspector of Agencies, at Atlanta, for the New York Life Insurance Company, who again represented the Association with respect to life-insurance matters. Commendation is also accorded for the splendid cooperation of Mr. Sam M.

Carson, General Agent, at Atlanta, for the Aetna Life Insurance Company, as well as for the assistance of other life insurance representatives in the state. Mr. Frank C. Owens, Vice-President, Draper-Owens Company, of Atlanta, represented the Association with regards to mortgage loan matters.

A brief description of the more important measures of interest follows:

MEASURES ENACTED

- S. B. 79----- Prohibits an action for a deficiency judgment after a sale of real estate under a power of sale unless the creditor within thirty days after the sale obtains confirmation thereof by the Superior Court. Court not permitted to confirm sale unless selling price at least equals the true market value of the property. Authorizes courts to order resales for good cause shown and requires sales under powers of sale to be advertised and conducted at the time and place and in the usual manner of sheriffs' sales in the county where the real estate is located.
- S. B. 100----- Amends the Charter of the City of Atlanta to require certain employees of the city to have group life insurance of \$1,000 each, the city to pay premiums over 70 cents per month for each employee.
- S. B. 124----- Adopts newly compiled Code of General Laws known as "The Code of Georgia of 1933," as approved by the Code Commission and as made effective, as of January 1, 1935, by proclamation of the Governor. No changes of substance made in the Insurance Law.
- H. B. 56----- Prohibits life insurance companies from providing in policies that the face amount which may accrue shall be payable in anything other than legal tender of the United States and of Georgia. The measure was amended, before passage, to eliminate a provision which would have provided that any life insurance company violating any law of the state regulating life companies should be subject, upon petition of any individual, to be enjoined therefor.
- H. B. 561----- Reenacts General Revenue Act. Although amendments were offered from the House floor to increase the state premium tax from $1\frac{1}{2}\%$ to $2\frac{1}{4}\%$, and to impose a sales tax—exempting premiums on which a tax is paid to the state but probably broad enough to tax annuity considerations at 5% —no additional tax burden was imposed upon insurance. In cases where a company invests 75% of its total assets in specified state securities, the premium tax rate was reduced from $\frac{3}{4}$ of 1% to $\frac{1}{4}$ of 1% . A general provision is contained in the new act to require the payment by January 1st of taxes imposed by the act, but we understand it is not the disposition of the Department to alter the date of premium tax collections.

MEASURES WHICH FAILED

- S. B. 13----- To prohibit a greater rate of interest than 6% on money loaned and to repeal present law prescribing legal interest rate of 7% and contract interest rate of 8% .
- S. B. 25----- To reduce the legal interest rate from 7% to 6% and the contract interest rate from 8% to 7% .
- S. B. 43----- To reduce the legal interest rate from 7% to 6% .
- S. B. 63----- To change the present interest rate to 6% .
- S. B. 78----- To reduce the contract interest rate from 8% to 6% .
- S. B. 97----- To impose a tax on intangibles, defining intangibles to include, among other things, "any equity in any life-insurance policy." Might have required mortgages and policy loans to be returned for taxation. Would have specifically required insurance companies to report annually the names and addresses of policyholders, amounts of insurance, and the paid-up cash surrender or unused loan values; also to furnish annually to the tax official in each county, in which any stockholder or bondholder may reside, a list of stockholders and known bondholders residing therein, with the market value of their stock and the face value of their bonds.

- S. B. 123----- To substitute a penalty of 12% of amount of claim, with reasonable attorney's fees, for present penalty of 25%, with reasonable attorney's fees, upon failure to pay a loss within the time specified in the policy.
- S. B. 133----- To provide a two-year redemption period after mortgage foreclosure sales.
- S. B. 148----- To amend present penalty law, applicable to insurance claims, so as to substitute for the provision conditioning the recovery of the penalty upon bad faith of the company, a provision conditioning the penalty upon a verdict for the plaintiff for 75% or more of the principal amount for which suit was brought.
- H. B. 34----- To prohibit persons and corporations from soliciting or advertising or, in any way, holding themselves out as eligible to be trustees of estates.
- H. B. 61----- To reduce license fees for industrial life-insurance agents from \$10.00 per county to \$1.00 per county.
- H. B. 92----- To impose a tax of \$1.00 on each individual and corporation for the purpose of providing funds for old-age pensions.
- H. B. 94----- To provide for automatic premiums loans in a somewhat similar manner as under present Rhode Island law.
- H. B. 168----- To invalidate all foreclosures of real estate under powers of sale unless such sales are confirmed by court order; to prohibit such confirmations unless the judge believes selling price represents the reasonable market value of the real estate; to require suits for deficiency judgments to be instituted within three months after confirmations; and to restrict deficiency judgments to the difference between the reasonable market value and the amount of the debt.
- H. B. 201----- To reduce the legal interest rate from 7% to 5% and the contract interest rate from 8% to 6%.
- H. B. 305----- To increase the state gross premium tax from 1½% to 3% and to allocate one-half of such tax to the common schools. Would have prohibited counties and municipalities from levying taxes or license charges on companies or agents, except ad valorem taxes, other than the special license taxes now permitted by state law on companies and their representatives; would have eliminated provisions as to reduction of the premium tax when certain percentages of assets are invested in designated securities; and would have required all taxes and charges against insurance agents and representatives to be paid by the companies.
- H. B. 317----- To prohibit a greater rate of interest than 6% on money loaned.
- H. B. 336----- To extend the maturity of all evidences of indebtedness during any period in which the withdrawal of deposits from banks is limited by any lawful authority, and to restrict the institution of action on any such evidences of indebtedness during such period.
- H. B. 344----- Same as Senate Bill 100.
- H. B. 420----- To reduce agents' license fees from \$10.00 to \$1.00 per county.
- H. B. 469----- To prohibit foreclosures by the power of sale method.
- H. B. 472----- Same as Senate Bill 133.
- H. B. 489----- To increase the state tax from 1½% upon gross premiums to 2½% upon premiums, less dividends paid in cash, or deposited by the insured subject to call. Would have eliminated certain license fees on agents and made the premium tax in lieu of any county or municipal tax or license fee on companies and their representatives. A substitute measure would have made the tax for state purposes 2% of gross premiums, less dividends paid in cash or deposited with company subject to withdrawal or allowed as a credit against premiums. Also would have permitted incorporated cities and towns to impose a tax of not over ½ of 1% on gross premiums less the same deductions. Also would have repealed special license fees of \$10.00 per county on local agents and \$100.00 on general agents.
- H. B. 539----- To make an insurance company liable for acts of its agents in inserting false statements or answers in applications, unless the insured had actual knowledge of and consented to such insertions, and to provide that an insurance company shall not be

allowed to avoid policies issued on such applications because of such statements or answers.

- H. B. 657----- To vest discretion in the courts to determine whether or not deficiency judgments would be permitted in foreclosure actions, and to prohibit deficiency judgments in cases where the action is against the original mortgagor, the mortgage is for the purchase price of the property and the original mortgagee becomes the purchaser at the sale.
- H. B. 709----- To impose upon industrial life companies a fee of \$10.00 for each agent, plus an additional \$10.00 for each county in which the agent solicits; such charges to be in lieu of the present fee of \$10.00 per county now imposed upon each agent. Would have prohibited companies from assessing such fees against agents.
- H. B. 827----- To repeal Senate Bill 100, described above.
- H. B. 876----- To impose a tax of 15% of the amount of premiums upon policies written in unlicensed companies or by unlicensed agents.
- H. B. 879----- To reduce from \$1,500.00 to \$1,000.00 the amount of income required to be reported under the information at source section of the income tax law.
- H. B. 918----- To enact a complete new Insurance Code. Among the changes which would have been made in the Georgia Insurance Law were provisions which would have—
- Required each life insurance company to deposit with the State Treasurer specified securities in the amount of \$100,000.00 for the protection of Georgia policyholders.
 - Authorized the Insurance Commissioner to prescribe standard forms of policies and contracts.
 - Authorized the Insurance Commissioner to examine any insurance company, but without authority to accept a report of examination made by another state.
 - Incorporated incomplete and ambiguous provisions relating to incontestability. Qualification that period shall run "during lifetime of insured" omitted. No exceptions included with respect to naval or military service nor regarding the right to contest disability and double indemnity claims at option of company. (Georgia at present has no incontestable law.)
 - Incorporated provision requiring insurer to return premiums with interest, if insured committed suicide within two years or died by the hands of justice within ten years.
 - Permitted Insurance Commissioner to measure policy values by any recognized standard table of mortality acceptable to him.
 - Set up agents' license and qualification law with a number of adverse features.
- A preliminary draft of the measure included a provision which would have imposed an additional premium tax of $\frac{1}{10}$ of 1% for the expenses of the Insurance Department.

EXHIBIT No. 716

[From files of The Association of Life Insurance Presidents]

ASSOCIATION BULLETIN SERVICE

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THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS.
MOTT A. BROOKS, *Assistant Secretary*.

NEW YORK, April 2, 1937.

No. 2759

GEORGIA LEGISLATURE ADJOURNED—DEPOSIT LAW ENACTED—PROPOSALS TO
INCREASE PREMIUM TAX AND TO IMPOSE GROSS INCOME AND NET INCOME
TAXES ON INSURANCE COMPANIES FAILED

The regular session of the Georgia Legislature, which convened January 25th adjourned on March 25.

The outstanding life-insurance measure enacted was one to include foreign life-insurance companies, among others, in the law which required certain insurance companies, other than life, to deposit \$10,000 to \$25,000 in prescribed securities with the State Treasurer. As passed by the House, it was inapplicable to life insurance. The Senate Insurance Committee, however, coincident with its reporting unfavorably of a Senate bill to require life-insurance companies to make a deposit of \$100,000, broadened the House proposal to include life-insurance companies. The bill as amended was quickly passed by the Senate, and the amendments were concurred in by the House.

A number of tax proposals were introduced, including two to increase the premium tax from 1½% to 2½%, a third to levy a 2% gross-income tax to which insurance companies would have been subject and a fourth to revise the net-income tax which would have repealed the present exemption of insurance companies. None of these measures was enacted, except the revision of the income tax which, however, was amended before passage to restore the exemption of insurance companies. Among the other proposals of special interest, which failed, were two to provide for hospital liens and two to make communications to a physician or surgeon privileged.

The association was again represented with respect to life-insurance matters by Mr. Robert L. Cooney, Inspector of Agencies at Atlanta for the New York Life Insurance Company, who was ably assisted by Mr. Sam M. Carson, General Agent at Atlanta for the Aetna Life Insurance Company. Much credit is due to these gentlemen and to other life-insurance men in the state who generously cooperated with them in the interest of life-insurance policyholders.

Brief descriptions of the more important measures of interest follow:

MEASURES ENACTED

- S. B. 75----- Authorizes Insurance Commissioner to appoint such investigators, as in his discretion are necessary, to effectively investigate the activities of all insurance companies doing business in state.
- S. B. 95----- Defines life-insurance contracts to include all contracts assuming an obligation to be performed on the death of the insured.
- H. B. 34----- To amend Constitution so as to permit the legislature to classify property for taxation and to tax the classes by different methods and at different rates.
- H. B. 140----- Amends net-income-tax law so as, among other things, to tax payments under annuity contracts in same manner as under Federal Revenue Act. As introduced, would have repealed exemption of insurance companies. Amended before passage to restore this exemption.
- H. B. 185----- Creates system of unemployment compensation. Requires employers of eight or more, specifically including insurance companies, to make contributions based on wages of 3.6% for the last six months of 1937, and 2.7% thereafter. Commissioner to report by December 1, 1939, on feasibility of establishing future rates according to experience. Contributions due and payable in accordance with such regulations as Commissioner may prescribe. Includes within definition of "em-

ployment" service performed by an individual, unless shown to satisfaction of Commissioner that such individual has been and will continue to be free from control or direction, both under his contract and in fact; that such service is either outside usual course of business or is performed outside of all places of business of the enterprise for which such service is performed, and that such individual is customarily engaged in an independently established occupation or business. Act inoperative and contributions to be refunded, as prescribed, if Title IX of Federal Social Security Act inoperative.

- H. B. 385----- Requires certain foreign insurance companies, including life, to deposit with State Treasurer a minimum of \$10,000 in prescribed securities. Companies with paid-up or issued capital stock in excess of \$500,000 would be required to make such deposit in an amount equal to 2% of its gross annual premiums "from business written on Georgia property," but not exceeding \$25,000. Also gives claims of policyholders a preference in liquidation of life-insurance companies.

MEASURES WHICH FAILED

- S. B. 3----- To reduce, from 8% to 7%, the contract interest rate, and to reduce, from 7% to 6%, the legal interest rate.
- S. B. 5----- To require "nonresident" life-insurance companies doing business in Georgia to deposit \$100,000 in approved securities with State Treasurer, and to give a preference to death claims in liquidation of life-insurance companies.
- S. B. 37----- To give hospitals and medical practitioners a lien for services rendered in connection with personal injuries on certain claims of the patient, in language broad enough to have included disability benefits.
(H. B. 36).
- H. R. 15-67C--- To amend Constitution to provide that after January 1, 1940, no tax other than an income tax might be levied by the state or municipalities except to pay existing bonded debt.
- H. B. 39----- Similar to Senate Bill 3.
- H. B. 176----- To impose a 2% gross income tax on all businesses. Would have been broad enough to have included both premium and investment income of insurance companies.
- H. B. 179----- To make communications to a physician or surgeon privileged. Would have permitted waiver of privilege only by patient and only after commencement of action.
- H. B. 180----- To require premium notes taken before delivery of policy to contain a complete description of the policy and to make such notes nonnegotiable.
- H. B. 272----- To increase the premium tax from 1½% to 2½%, and to eliminate present deductions of premiums returned in change of rate and in cancellations and of premiums for reinsurance. Also would have eliminated provision which grades such tax down to 1% if ¼ of total assets invested in prescribed securities, and to ¼ of 1% if ¼ of such assets so invested.
- H. B. 416----- To require all foreign corporations to appoint resident of Atlanta as agent for service of process.
- H. B. 548----- To provide that an insurance company, doing business in state, which has no agent for service of process shall be presumed to have designated the Insurance Commissioner as such agent.
- H. B. 640----- To amend General Revenue Act so as, among other things, to increase the normal rate of premium tax from 1½% to 2½%; to increase rate from 1% to 1½%, if ¼ of total assets invested in prescribed securities, and to provide for no premium tax if ¾ of such assets so invested.
- H. B. 675----- To impose a gross income tax on certain businesses and occupations, specifically exempting insurance companies which pay a premium tax; also exempting certain policy proceeds.
- H. B. 784----- To require nonforfeiture provisions in industrial policies which provide surrender values, loan values, extended insurance, or other rights or privileges to the insured.
- H. B. 835----- To impose a gross income tax. Would have exempted insurance companies and certain policy proceeds.
- H. B. 845----- Similar to House Bill 179.

EXHIBIT No. 717

[From files of The Association of Life Insurance Presidents]

ASSOCIATION BULLETIN SERVICE

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THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS.
MOTT A. BROOKS, *Assistant Secretary*.

NEW YORK, February 19, 1938.

No. 2954

GEORGIA SPECIAL SESSION ADJOURNED—COMPULSORY INVESTMENT AND PREMIUM TAX MEASURES FAILED

The special session of the Georgia Legislature, which convened November 22, 1937, adjourned on February 13.

A House measure which failed was of the "Robertson type" and would have required companies to have 75% of their Georgia reserve invested in prescribed Georgia securities. Another unsuccessful proposal would have imposed, in addition to present taxes, a 5% tax on gross premiums received by foreign life companies not having invested in certain prescribed Georgia securities 75% of "net earnings" from business done in Georgia during the previous year. Still another adverse measure which failed would have imposed an inheritance tax on life-insurance proceeds, in excess of \$10,000, payable to named beneficiaries.

A new law creates a Department of Revenue and the office of State Revenue Commissioner. Another proposal which became law provides for the classification and taxation of intangible property in accordance with the authority granted by a constitutional amendment passed at the last regular session of the Georgia Legislature. A bill to permit banks to absorb the "intangibles" tax on depositors' accounts is pending before the Governor. Of interest because of their relation to the property tax demands of Fulton County, Georgia, which are now the subject of litigation, are a measure to outlaw the employment of tax ferrets on a contingent fee basis, which is awaiting the Governor's action, and a new law authorizing towns and cities to create Boards of Tax Appeals. A new enactment requires industrial policies to contain nonforfeiture provisions.

As in past years, the Association was represented by Mr. Robert L. Cooney, Inspector of Agencies at Atlanta for the New York Life Insurance Company, who received valuable assistance from Mr. Sam M. Carson, General Agent at Atlanta for the Aetna Life Insurance Company. Credit for the successful outcome is due to these gentlemen and to the life-insurance underwriters who cooperated with them so generously in the interests of policyholders.

Brief descriptions of the more important measures of interest follow:

MEASURES ENACTED OR BEFORE GOVERNOR

- S. B. 102---- Amends new Intangibles Tax Act (House Bill 26) so as to permit banks and trust companies to pay any tax due on depositors' accounts. Before Governor.
- H. R. 152-A- To declare void contracts for the collection of taxes on a contingent basis and to declare such practice against the public policy of the State. Before Governor.
- H. B. 26----- Creates new Intangibles Tax Law providing for rate of 50¢ per \$1,000 on bank deposits and \$3 per \$1,000 on certain other intangibles. Intangibles of nonresidents declared taxable if such property "acquired in the conduct of, or used incident to, business carried on or property located in this State." Approved.
- H. B. 27----- Creates Department of Revenue and office of State Revenue Commissioner to head the Department. Commissioner is to take over all duties and powers relating to taxation and licensing now vested in various state administrative officers, except that powers and duties of the Comptroller General with respect to the licensing of insurance companies and their agents is not disturbed, and except that Commissioner is expressly authorized to delegate collection of "license fees" to other departments of the State Government

under certain circumstances. Section containing delegation authority also provides that "In any case in which the collection of any tax or license may be delegated as provided in this Section the Commissioner shall retain supervisory authority over such activity and is hereby charged with this duty." Approved.

- H. B. 29----- Authorizes towns and cities to create Boards of Tax Appeals before which objecting taxpayers must appear prior to seeking relief by court action. Approved.
- H. B. 54----- Requires industrial policies to contain nonforfeiture provisions and establishes grace period of 90 days within which insured may elect to take optional rights. Approved.
- H. B. 78----- Permits insurance companies, among others, to invest in shares of state-chartered building and loan associations as defined in the Building and Loan Act and of Federal savings and loan associations, up to \$5,000 in each such institution, where such institutions are insured by Federal Savings and Loan Insurance Corporation. Also makes such permitted securities eligible for deposit. Approved.
- H. B. 366----- Authorizes Boards of Education of counties having population of not less than 48,667 nor more than 48,677 to insure the lives and health of teachers and other employees, and authorizes such Boards to pay necessary premiums and make necessary appropriations. Approved.

MEASURES WHICH FAILED

- H. B. 51----- To impose an inheritance tax applying, among other things, to life-insurance proceeds in excess of \$10,000 payable to named beneficiaries. Would have required mailing prescribed notices to the State Revenue Commission as a prerequisite to payment of policy proceeds, but Commission would have been permitted to waive notice requirement on sums of \$1,000 or less.
- H. B. 197----- Similar to House Resolution 152-A.
- H. B. 268----- To impose 5% tax on gross premiums received by companies doing business in Georgia to be in addition to present taxes. Would have exempted domestic companies and such other companies as invest 75% of "net earnings from business done in the state during the previous year" in certain specified Georgia securities.
- H. B. 388----- To impose a tax on gross receipts of individuals and corporations, exempting insurance companies which pay to the State a tax on premium income. Certain policy proceeds also exempted. Would have required information-at-source reports and withholding in certain cases.
- H. B. 420----- To impose a gross sales and income tax on individuals and corporations, exempting insurance companies which pay a premium tax to Georgia, and exempting certain insurance proceeds.
- H. B. 507----- To require life-insurance companies to have 75% of their Georgia reserve invested in prescribed Georgia securities. Similar to compulsory investment features of Texas Robertson law.
- H. B. 525----- To require an assurer, upon the cancellation of an insurance policy or contract for any cause by either party, to, within ten days, refund to the assured a pro rata part of the premium paid, according to the length of time the contract was in effect as compared with the full time the contract was to remain in effect.

EXHIBIT No. 718

[From files of The Association of Life Insurance Presidents]

[Initialed: B.]

JUNE 10, 1935.

Re Pennsylvania Senate Bill No. 1520.

WILLIAM H. KINGSLEY, Esq.,

Vice President, The Penn Mutual Life Insurance Company,
Philadelphia, Pa.

DEAR MR. KINGSLEY: Supplementing my letter of June 8th, in connection with the above-mentioned proposal, it occurs to me that you might desire to have before you a record of the bills of this type which have been introduced in the various legislatures.

As you know, the only savings-bank life-insurance law now on the statute books is in Massachusetts. Since its enactment in 1907 seventeen measures of this nature have been introduced in seven states. Despite the fact that some of these were rather strongly supported, none has become law. The following table shows the state and year of these introductions:

Year	State	Year	State
1909.....	New York (2).	1934.....	New York (2).
1910.....	New York (2).	1934.....	Rhode Island.
1910.....	Rhode Island.	1935.....	Florida (2).
1913.....	New Hampshire.	1935.....	New Hampshire.
1929.....	No. Carolina.	1935.....	New York.
1931.....	Indiana.	1935.....	Rhode Island.
1932.....	New York.		

In addition, a Missouri proposal, in the form of a constitutional amendment, was introduced this year but not enacted, to authorize the legislature to create mutual savings banks, with or without life-insurance departments. It, however, did not set up details for the operation or regulation of such departments.

Very truly yours,

_____, Statistician.

CFC:CV.

EXHIBIT No. 719

[From files of Association of The Life Insurance Presidents]

[Copy]

Fast message.

FEBRUARY 24, 1937.

JAMES C. JONES,

Jones, Hocker, Gladney and Jones,
705 Olive Street, St. Louis, Missouri:

As promised in telephone conversation this morning, have arranged with President Sears, of Columbian National, to wire Dyer expressing adverse views House Resolution eleven, while presuming Dyer's opposition. Massachusetts Mutual air-mailing letter St. Louis representative, and Scott in Kansas City also expressing adverse views. New England Mutual wiring similarly to St. Louis agent today. John Hancock writing Cammack to cooperate with you, as it has already expressed opposition this bill. Still working on State Mutual. Sending air mail one copy DeGroat's recent analysis Massachusetts plan distributed by National Association Life Underwriters. Can obtain additional copies this pamphlet or other material similar to that sent two years ago if you wish. Referring views of Crocker, former President John Hancock, think perhaps he may have said savings-bank insurance not in competition with industrial insurance. This because former written in larger amounts so as to be in competition ordinary insurance and not because Crocker favored Massachusetts system. On contrary, he was violently opposed. Think Dyer must have misconstrued his meaning. Will be glad to take further action if such desirable.

B. E. SHEPHERD.

EXHIBIT No. 720

[From files of The Association of Life Insurance Presidents]

[Notation: Missouri. H. J. & C. R. 11.]

[Initialed: R. Bacon. E. L. K.]

JONES, HOCKER, GLADNEY & GRAND

ATTORNEYS AT LAW

705 Olive Street

James C. Jones
 James C. Jones, Jr.
 Lon O. Hocker
 Frank Y. Gladney

Joseph H. Grand
 Web A. Welker
 Vincent L. Boisaubin
 Arnot L. Shepherd

Edward W. Lake
 Warren F. Drescher, Jr.
 Lon Hocker, Jr.

St. LOUIS, Mo., February 25, 1937.

(Stamped) Rec'd 1937 Feb.-28-AM 10:29.

Air mail.

ASSOCIATION OF LIFE INSURANCE PRESIDENTS,

165 Broadway, New York, N. Y.

(Attention Mr. Shepherd.)

Gentlemen: We are reporting details regarding above in a separate letter. This is merely suggestive.

I think it is pretty generally true, though there are some notable exceptions, that General Agents and Managers know *nothing* about the Massachusetts Savings Bank insurance law and its operation. The consequence is, they are generally *apathetic*.

Some of these in the operation of their business very naturally make close contacts with the banks, large and small.

Some of the *smaller* banks are reported to be distinctly in favor of H. B. 201, which provides for the organization of savings banks, and favoring this, they also favor H. R. 11, which would authorize savings banks to write insurance.

Now when the agent, apathetic in the sense above adverted to, ascertains that his friend, the small banker, favors these measures, he naturally becomes more apathetic, because he fails to appreciate what he is building up against himself, as indicated in De Groat's pamphlet, particularly at page 24, et seq.

THE REMEDY: If, in Missouri and other States where savings-bank insurance is sought to be introduced, the *President* of the company would send to each General Agent or Manager in the State a copy of Berman's book and a few copies of De Groat's pamphlet, with a request that they *read both* and advise the President in due time their own unbiased opinion on the subject, a lot of good would follow, for the resultant attitude of the *informed* agent is easily foretold, and the request for study and response is only to insure such study.

It is questionable that this or any equivalent course will have much effect during this session, for the Legislature should adjourn in five or six weeks; and yet, if it could be started at once, it might be of some help even in this session, but this bill is being reintroduced with systematic regularity in each recurring session, and something of the sort is indicated in preparation for the session of 1939.

Yours very truly,

(Signed) JAMES C. JONES.

[Notation: H. J. & C. R. 11.]

[Initialed: B. R. B. B. E. L. K.]

Day letter.

FEBRUARY 26, 1937.

(Stamped) Sent 1937 Feb.-28-PM 4:57

JAMES C. JONES,

Jones, Hocker, Gladney & Grand,
 705 Olive Street, St. Louis, Missouri:

Interested in plan you suggested for educating agents on savings-bank insurance but wish time to consider fully. In view difficulty securing results at present session by this method, suggest you might want to consider immediate distribution DeGroat pamphlet by yourself in St. Louis and Scott through underwriters association if sufficiently well organized and if you think this would reach right persons. If this appeals to you, wire number of copies desired by yourself and Scott.

ELK.

B. E. SHEPHERD.

[Letterhead of Jones, Hocker, Gladney & Grand]

[Notation: R. Bacon.]

ST. LOUIS, Mo., *February 25, 1937.*
(Stamped) Rec'd 1937 Feb.-26-AM 10:30.

House Resolution No. 11.

Air mail.

ASSOCIATION OF LIFE INSURANCE PRESIDENTS,
165 Broadway, New York, N. Y.
(Attention: Mr. Shepherd.)

Gentlemen: Mr. Welker, of this office, was at Jefferson City yesterday, and ascertained that because of the illness of the sponsor of this bill, the hearing would be deferred until March 3, a week from yesterday.

The telegrams which were sent to the Agents of the various Companies have I think, materially changed the attitude of most if not all of them, and, from being apathetic, I think they have become, or will by the time of the hearing, distinctly, cooperative in opposing this resolution.

Mr. Scott, of Kansas City, was in town today, and I have just finished a conference of an hour and a half with him in respect of this and other matters. He a very earnest and painstaking man, and very persistent, and is in all things cooperative. He will not only help us on this measure, but on anything else that we call on him for.

Yours truly,

JAMES C. JONES,
by W.

EXHIBIT No. 721

[From files of The Association of Life Insurance Presidents]

[Notation: Missouri. H. J. & C. R. 11.]

[Initialed: R. Bacon. B.]

JONES, HOCKER, GLADNEY & GRAND

ATTORNEYS AT LAW

705 Olive Street

James C. Jones,
James C. Jones, Jr.,
Lon O. Hocker,
Frank Y. Gladney,

Joseph H. Grand,
Web. A. Welker,
Vincent L. Boisaubin,
Arnot L. Sheppard,

Edward W. Lake,
Warren F. Drescher, Jr.,
Lon Hocker, Jr.

ST. LOUIS, Mo., *March 17, 1937,*
(Stamped) Rec'd 1937 Mar.-19-AM 8:51.

H. R. 11.

ASSOCIATION OF LIFE INSURANCE PRESIDENTS,
165 Broadway, New York, N. Y.
(Attention Mr. Shepherd.)

GENTLEMEN: I was informed today that the legislative committee of the local banks is going to bring out a resolution opposing the above bill.

It was also intimated to me that the one local banker who is in favor of this measure probably changed his mind. I hope this is so, or otherwise a minority report in favor of the measure would not be so good, for the reasons I explained to you in New York.

I have done nothing to encourage action by this committee of bankers. One is hardly in a position to tell them what not to do when it seems it is apparent that they now propose to do it.

I talked to about forty of the insurance agents yesterday at a luncheon of the Managers' Association and explained to them what our course was, handing them a document prepared for their use with the section relating to bankers somewhat modified. These managers are now engaged in picking the men best available for contact purposes, but they are not to be turned loose until I give them word, which will not be given until this measure gets over into the Senate, which will probably be sometime next week.

Yours very truly,

(Signed) JAMES C. JONES.

[Notation: No ans. R. B. B. E. L. K.]

ARGUMENTS FOR INDUSTRIAL AGENTS

Each agent is invited to use and be prepared only for such part of what follows as *impresses him as forceful*. Thus, Agent A may prefer to talk on Paragraph (1) and agent B may prefer to talk on Paragraph (5).

Choose what part you like, but get it over with a punch and in from 3 to 5 minutes. Best not to take longer.

(1)

SELFISH INTEREST

As a general agent or manager of a life-insurance company, and particularly an industrial company, I, of course, have a *selfish* interest in opposing this measure.

I am one of a number (perhaps ———) of such agents, and we all have a similar *selfish* interest.

We do not want the business which we have been years in building up disturbed or destroyed by competition *unless we have to make this sacrifice for the public good*.

This selfish interest is the selfish interest of so large a number of the community that I think it is the duty of our Senators and Representatives to consider the selfish interests of so large a number as being an *important part* of those who should be considered in all measures designed for the betterment of the *General Welfare*.

After all, legislating for the *general welfare* means essentially so legislating as to improve the selfish interests of a substantial part of the community, and I claim that we *insurance agents* are a substantial part of the community whose interests should be guarded by *our Representatives*.

(2)

DOES MISSOURI WANT MUTUAL SAVINGS BANKS?

We have no mutual savings banks in Missouri.

The present Constitution says we shall have none unless the people *expressly vote for them*, after the legislature passes an act creating them.

Why does anyone want *Mutual Savings Banks*; that is, banks *without capital*?

Capital is intended to give *some security* that deposits will be returned when demanded by depositors.

Without capital there will be *no security* for the return of such deposits.

Even with the commercial banks, which have capital, the bank mortality in Missouri has been little less than appalling. Starting with 1,463 banks in 1925, Missouri had left at the beginning of 1935 only 642 banks.

These figures are taken from the last published report of the State Bank Commissioner, page 16.

The bank mortality was, therefore, 66% in 10 years—which means that two-thirds of the banks existing in 1925 passed out of existence by 1935.

This record would seem to indicate that instead of having more banks, we should have better banks. Instead of banks with *no security* for depositors or *less security*, we should have banks with *greater security*.

But this measure looks to the creation of banks with no security for depositors.

I claim that for Missouri this is bad public policy and disregards the general welfare.

(3)

INCREASING BANK RESPONSIBILITY

During the ten-year period (1925 to 1935), Missouri organized 175 new banks. During that same period, 696 banks failed. This is shown by the last Bank Commissioner's Report, page 16. In other words, during this period, four times as many banks failed as were organized in Missouri.

Why should we add to the responsibilities of the bankers by letting them take on the insurance business in any form?

Of course, it was the *smaller banks* that were undercapitalized that were mostly the banks that *failed*. Now this measure proposes to create more small banks with no capital—*mutual banks*—and to increase their responsibilities by empowering them to write *life insurance*.

Life insurance means issuing contracts, some or most of which do not mature *until death*—30, 40, 50, 60 years hence.

If two-thirds of the banks fail in 10 years, of what value is the contract of such a bank when the contract does not mature for from 15 to 50 years hence?

Small banks should *make a better showing* of ability to do a banking business before they are authorized to take on the responsibility of the *life-insurance business*.

The banking business is itself an *intricate business*—indeed, a very hazardous business. If two out of three fail in a ten-year period.

But the *life-insurance business* is much *more intricate* than the banking business. Everybody concedes that. Now it is proposed to give the small banks two hazards to jump—two ropes with which to hang themselves.

It's like saying to the small banks: "Well, boys, you did a pretty good job during the last ten years *killing yourselves off*. Two out of 3 of you couldn't survive 10 years." But, Missouri knows its stuff. We are going to fine you during the next ten years. You smaller banks are hungry for profit, and experience indicates that it doesn't make a lot of difference to you how you get it.

Now we are going to offer you an attractive bait. We are going to authorize you to do the *life-insurance business*. You don't know anything about life insurance, of course, but you'll learn *or you will fail*. And if enough of you take on the added responsibility of life insurance during the next ten years, you can run up the *bank mortality* of Missouri from 66% to perhaps 85% or 90%. *And that will sure be a record.*

And that is just where this legislation is likely to lead Missouri.

(4)

COMMISSIONS TO AGENTS

It is claimed that savings bank insurance is *cheaper* because there are no *agents* and *no commissions to pay*. But what does the agent do for his commission? He collects the premium—from 5 cents to 25 cents per week—and thus *keeps the insurance in force*.

Under the savings-bank plan, the *insured* would have to go—and *each insured* would have to go—*each week* down to the bank or other agency and *pay his premium there*. How can he do this when *he is at work*? Will he do it *after working hours*?

Experience shows that he will not. Will *his wife* do it for him? She has her work to do at home.

The consequence is that his insurance *will lapse* in a far greater degree where *he has to go to the insurer* (the bank) than it does when the insurer, through the agent, *comes to him to collect his premium*.

If it is wise *public policy* to keep wage carriers covered with insurance to a modest extent, then it is far better to have the agent call for the premiums than to depend on the wage carrier to go to the bank to pay the premiums.

For the commission he gets, the agent visits each policyholder *on his route*—much as a milk wagon delivers milk. For this commission, he wears out shoes, clothing, feeds himself, and houses himself. *He surely earns all he gets*. He makes a *substantial return to each policyholder by keeping his policy in force*. He makes a *substantial return to the state* for each policyholder who dies adequately insured is one or more (wife and children) *less paupers* left for the state to take care of. Everybody is helped by the present system. Many will be harmed if it is changed.

(5)

TAXATION

Savings banks are not to be liable to Missouri for any taxes and fees assessed against life-insurance companies.

The life-insurance companies during the past ten years have paid Missouri in taxes a total of \$ _____ or \$ _____ per year.

Of course, every one knows that if you don't have to pay taxes, you can sell your goods for less.

But why should the State of Missouri set up a competitor to *good customers*.

Why should the state help savings banks who will be *tax-free* to reduce the business of insurance companies who pay the state *liberal taxes*.

(6)

MISSOURI'S INSURANCE RECORD

Missouri has never produced a great (that is a large) life-insurance company.

We have some smaller life insurance companies well worth while, but even in this class there have been more failures than successes.

For the past four years there has been a lot of publicity (and some scandal) in connection with companies put out of business and in the course of being put out of business.

Fraternal life insurance has also been the subject of official attack, with frequent official charge of insolvency. Without discussing the merits of these charges or countercharges, it is well to ask these questions:

First: Are we going to add to or lessen the occasion for further scandal by encouraging small banks to go into the life-insurance business?

I think the answer must be that we will *increase the scandal*. For if there is any one thing true in business life it is that men interested in the banking business make a failure of trying to run an insurance company.

Second: What do such failures mean?

They mean—

- (1) The banker loses his money;
- (2) The depositor loses his money;
- (3) The insurer loses his money;
- (4) The state loses its taxes;
- (5) And I, Mr. Committeeman, have my business impaired by cheap insurance that doesn't stick, and who *gains*?

NO ONE

EXHIBIT No. 722

THE SAVINGS BANK IN LIFE INSURANCE

By Floyd E. De Groat, Boston

A recent treatise by an internationally known Actuary and Executive presents in striking manner the effect of interest earnings on the institution of Life Insurance. One illustration is the fact that at the close of 1933 the interest received through their history, by three hundred and twenty-eight life-insurance companies, has not only sufficed to pay all expenses and taxes, but has added to the amount held for the future payment of existing policies the sum of \$1,114,000,000.

Another demonstration of the power of interest affecting the individual is that at age twenty-five an Ordinary Policy carried through the expectation of life, with all interest eliminated, would cost almost exactly double that which has resulted from past and present conditions of interest earning.

Attention is directed to the marked trend towards lower interest now being realized by all financial institutions, and the likelihood that such trend may continue. Unquestionably the present day witnesses the most powerful movement towards lowered interest that has ever occurred in this country. It is instructive, therefore, to study the behavior of our leading mutual life-insurance companies, and that of our foremost mutual savings banks; and it will be interesting to observe the conduct of the Massachusetts Savings-Bank Life Insurance and to what degree its processes resemble those of its antecedent and superior institutions.

A number of life-insurance companies which have operated with premium rates cast on the assumption that $3\frac{1}{2}\%$ interest would be realizable indefinitely into the future, have remade those rates, proportionately increasing them as mathematically required in order to provide the more ample reserve, which, earning only 3% will bring their policies to maturity. As of November 1, 1935, Savings-Bank Life Insurance has adopted the 3% basis for its future operations.

The savings banks of Massachusetts have during recent years steadily lowered the interest rate to depositors. In the last two or three years changes have been more frequent and violent. What was several years ago, for a very brief period, a 5% dividend rate to depositors, has come to be quite generally $2\frac{1}{2}\%$. There is no assurance that this rate may not go still lower. In the life-insurance department of the banks the case is different, for what stood through the most important period of their existence as the interest rate used in determining dividends to policyholders, namely, $5\frac{1}{2}\%$, has only in 1935 come to be 4.6%. On the depositor's side of the bank the maximum reduction has been $2\frac{1}{2}\%$, while in the life-insurance department of the banks the maximum reduction has been $9/10$ ths of 1%.

The interest earnings of the foremost life-insurance companies of this country have exceeded savings-bank rates through a major portion of their history—perhaps always. The prevailing rate used for dividend distribution to policy-

holders in the life-insurance companies has, through a long time prior to 1932, hovered closely around 5%. A single illustration may be taken as fairly typical of the high average rate of interest earned and distributed in mutual life-insurance operations. One company has, through a period of more than forty years, prior to 1932, employed a net effective rate never less than 4.7%. The variation through those years was from 5.1% to 4.7%—a single change for the forty-year period. Savings-bank rates to depositors, on the contrary, have not only averaged materially below the foregoing, but very abrupt changes have been numerous. The reasons for these differences may be attributed largely to the wide investment range for the life-insurance companies of national scope as compared with the more limited and necessarily local field of savings-bank operations. Or it may be put in this manner: The mutual life-insurance companies of the country have been and are so positioned as to enable them to procure the full normal rate of interest consistent with the safest investment of funds; their national character affords the most favorable opportunity, and maximum advantage has been taken of it.

It is not only during the forty-year period above referred to that the mutual life-insurance rate has exceeded the savings-bank rate. The effective rate in use since 1932 is relatively quite as favorable—even more favorable—in mutual life insurance. The rate actually employed in 1935, even upon those funds most readily subject to cash withdrawal, i. e., most similar to savings-bank deposits, namely, dividends left to accumulate, has in mutual life-insurance companies ranged above 4%. These are, as of 1935, the effective rates employed in mutual life-insurance dividend distribution, and are to be compared with the dividend rates to depositors in mutual Savings Banks, 4% in the one case, 2½% in the other. A difference of 1½% is observable. That a very similar relative difference has prevailed throughout the history of the two institutions—mutual Life Insurance and mutual Savings Banks—can be truthfully stated. Incontrovertible evidence of this fact will be later presented.

That inequality between the deposit department and the insurance department of the banks definitely exists is clear from the following quoted from a recent publication by the Bureau of Labor Statistics at Washington entitled "The Massachusetts System of Savings-Bank Life Insurance":

"Probably the most common type of annuity purchased is the annual premium deferred annuity. This may be paid for regularly, * * *. If the purchaser dies or surrenders his contract before the annuity begins, the total amount of premiums paid in, with interest compounded, at a guaranteed rate of 3½ percent is refunded."

Excess earnings are in addition to this. In other words on the deposit side of the bank 2½% is being paid without any guarantee of continuance. On the insurance side deposits made will be compounded at 3½% annual basis for an indefinite period or until death or surrender. Manifestly the insurance side of the bank should be used even for deposit accounts.

A life-insurance policy is a complex of contractual obligations. Mutual life insurance is a business of guarantees. A mutual savings bank has nothing to do with guarantees. It cannot under the law promise a depositor the fraction of 1% as dividend for one-half year. In the life-insurance department of the mutual savings bank, however, guarantees abound. Quite aside from the privileges and provisions of policy contracts are reserve guarantees. Savings-Bank Life Insurance has now in use three different guaranteed rates of interest: 3% on policies issued since November 1, 1935, 3½% on all life-insurance contracts issued before that date; and 4% under annuity contracts, the reserves of which exceed \$3,500,000. These interest rates must be earned through the lifetime of the policyholder or annuitant, forty, fifty, sixty years or more, and if the post-maturity privileges of policies be employed these interest guarantees may extend through the subsequent lifetime of even two beneficiaries in succession to each other.

Attention has heretofore been directed to the tremendous importance of interest rates in the determination of dividends and net cost to policyholders. In the recent publication by the Bureau of Labor, the author makes a most unsatisfactory defense of the employment by the banks of an interest rate so far in excess of the depositor's rate, and some altogether inconsistent statements appear. He sets forth an elaborate table under the heading "Earnings on Invested Assets" which purports to demonstrate that the assets of the savings-bank insurance departments earn a considerably higher rate of interest than do the assets of life-insurance companies.

Elsewhere in the book appears the statement, "The protagonists of the savings bank insurance system * * * point out that it is general for the rate of

interest on savings deposits to be less than the rate earned on insurance assets whether one compares the interest rate paid to the depositors of the savings insurance banks with that earned by their insurance departments, or whether one compares the interest rate paid by savings banks the country over with the rate of interest earned on the assets of private insurance companies."

We have then this conflicting state of affairs. The life-insurance companies earn more than do the savings banks. The savings-bank life-insurance departments, however, earn more than do the life-insurance companies. But the law is specific that the investments of the life-insurance departments of the banks must be the same as investments of the savings banks themselves. Some slight differentiation in the rate applicable to insurance funds as compared with depositors' funds may be logical, due to somewhat greater liquidity that must be recognized for the funds more subject to withdrawal. Mutual life insurance companies, some but not all, have in practice given recognition to this. The differentiation, however, has been never more than one-quarter of one percent as a maximum between those funds which most closely resemble savings-bank deposits, i. e., dividends arising from policies, but left at interest subject to withdrawal, and the more permanent funds, such as the proceeds of policies left in the company's keeping at maturity. Yield of $5\frac{1}{2}\%$ has had no place during the past thirty-five years as normal rate of interest in the nonspeculative portfolio of any great fiduciary institution in America, for a period so long as a twelve-month; few savings-bank Trustees will declare otherwise. Certainly the rate of savings-bank interest paid to depositors in Massachusetts disputes it for a period of even a half year.

The effective rate of interest to depositors in other leading savings bank states throughout New England, in New York, New Jersey, Pennsylvania, and Ohio, also disputes the realization of so high an interest rate for distributive purposes or otherwise. The interest rate used for dividend apportionment in the foremost mutual life insurance companies of the country likewise disproves the realization of this high rate. It is difficult to understand how any responsible official of the Division of Savings-Bank Life Insurance could deny "that the assumption of the $5\frac{1}{2}\%$ rate of interest has any necessary connection with the rate of interest earned on invested assets." For over a long period of years there must be a close relationship between the rate used for the allocation of dividends to policyholders and the net rate earned.

INTEREST RATE CHANGES

A careful compilation has been made from official records of dividends to depositors in four of the largest and most representative savings banks in Massachusetts, through the period during which Savings-Bank Life Insurance has operated in the Commonwealth. From 1907-35, inclusive, the maximum number of interest-rate changes in any one of these banks is fourteen, and the most abrupt drop is from $4\frac{1}{2}\%$ to $2\frac{1}{2}\%$. The actual average rate of distribution to depositors in this foremost group of banks on the basis of semiannual calculations is 3.975%. The question manifestly propounds itself—what justification is there for so great a differentiation between the funds of depositors and those of policyholders?

The power of interest as affecting life insurance dividend distribution is so great that a difference of one percent applied yearly to the mean invested assets of the savings-bank insurance departments through only the important period of 1922 to 1934, inclusive, would amount to more than \$1,000,000. Prior to 1922 dividends were not determined by formula made of interest, mortality, and expense factors. Criticism of the high interest rate with which the funds of savings-bank life-insurance policyholders have been favored comes from many sources. Critics appear in savings-bank circles, even amongst Trustees of savings banks.

Even the casual reader is led to inquire what sources of income has savings-bank life insurance that are not available to regular mutual life insurance companies; and further, what justification exists for such differentiation in interest rate between the depositor's side of a savings-bank and the life-insurance side. Has the mutual principle of the savings bank been strained, perhaps violated? "Funds of the Insurance Department * * * whether constituting insurance reserve or surplus, shall be invested in the same classes of securities, and in the same manner in which the deposits of the Savings Department are required by law to be invested * * *" (Massachusetts General Laws). While there is nothing in the law which authorizes the selection for policyholders' advantage of the choicest assets in possession of the savings banks, there is nothing in the law which specifically prevents this.

SOURCES OF INCOME

The publication by the Bureau of Labor Statistics previously mentioned makes available considerable information as to the unusual sources of income with which Savings-Bank Life Insurance has been and is favored. The author, Professor Berman, of the Department of Economics at the University of Illinois, sets forth in detail the appropriations by the Commonwealth of Massachusetts since the formation in 1907 of the savings-bank life-insurance plan. The literature of the Institution has made scant acknowledgment of the subsidies granted by the State during a twenty-seven-year period, although much is now made of the fact that since 1934 Savings-Bank Life Insurance has reimbursed the State in the amount of the current appropriations. That such reimbursement refers only to the current year's appropriation has not been emphasized. The total net amount of the State subsidy, after deduction of all reimbursements to the State, is given in the book as \$551,146.22.

Accompanying the statement is the observation that this sum constitutes but 2.18% of the total premium income 1907-33, inclusive. The real relationship, however, of this subsidy to the present resources of the Institution may not be so easily dismissed. This money—\$551,146.22—together with interest, must now appear in the funds of the Institution, for the reason that the savings insurance banks were not obliged to withdraw from their own resources the sums which were granted by the State for the furtherance of the enterprise. It is one of the functions of life insurance to deal in compound interest, as it is also of the savings bank.

Although the life-insurance departments of the savings banks have used an interest rate of 5½% in determining dividends through the important period of their history, a rate of 5% might be nearer the actual. The annual subsidies, less reimbursements, accumulated at 5% interest to the end of the last insurance year, October 31st, 1934,* would reach a total of about \$1,100,000.00. This figure represents the larger part of the existing surplus of Savings-Bank Life Insurance at that date, which surplus, including the General Insurance Guarantee Fund of \$184,844, amounted to \$1,300,658. In fact, if the law, passed in 1929 relative to the refund of future State appropriations, had required the banks to refund to the State all previous appropriations with accumulated interest at the rate of 5%, their surplus and general guarantee fund would have been completely wiped out and their reserves impaired.

THE QUESTION OF "SUBSIDIES"

The book further sets forth that the gifts or donations, also termed "subsidies," received through the "Massachusetts Savings Bank Insurance League," for the promotion of the insurance department of the banks during the years 1908-33, inclusive, do not amount to as much as 1% of the total premium income, which was more than \$25,000,000 during this period. This would represent an average annual subsidy of perhaps \$9,500, which, accumulated at 5% interest to October 31, 1934, would total more than \$500,000. In other words, the Institution not having been compelled to furnish from its own income these yearly "subsidies" should now be possessed of these sums with accumulated interest.

In the publication by the Department of Labor, the author has stated, "Lower costs are also attributable in part to the fact that the insurance companies, which pay both State and Federal Taxes, have borne a larger burden of taxes than have insurance departments of the savings banks, which pay no Federal Tax." He further declares that this differentiation may be set down at 2% of the premium income for the companies, as against ½ of 1% for the insurance departments of the banks. Any attempt to measure the real significance of this difference is omitted. It clearly appears, however, that Savings-Bank Life Insurance has paid one-quarter of the amount of tax that would have been required if the insurance department funds of the banks had been taxed as life insurance is taxed, instead of as savings-bank funds, and that the banks enjoy an annual saving on this account amounting to 1½% of the premium income. These taxes have been saved to the insurance banks through the years; the present accumulated values should, therefore, appear in the assets of the Institution. Compounded at 5% through the period, this seemingly small difference amounts to about \$600,000.

*Report for the Insurance Year ended October 31, 1935, not available at this writing.

HOUSING FREE

Savings-Bank Life Insurance has been housed free of charge in the State Capitol Building. The assumption is fair that had the Institution been required to furnish its own quarters and pay rent, it would have been subjected to rental and upkeep costs perhaps averaging \$7,500 per year, or a total of \$202,500.00 for the period 1908-34, inclusive. Offices at all adequate to the dignity and growing importance of a life-insurance institution could scarcely have been acquired for less.

In this connection we quote from the book as follows: "The fact that the Seal of the Commonwealth of Massachusetts is printed on some of its publicity material, that its correspondence is written on stationery bearing the name of the State and of a Department of the State government, and that there is general knowledge that its offices are in the State House on Beacon Hill, helps to advance the growth of Savings-Bank Life Insurance." It is impossible to assess the value to Savings-Bank Life Insurance of thus breaking down sales resistance by these intangibles so generally accepted as proof that Savings-Bank Life Insurance is a State institution; that its policies are guaranteed by the Commonwealth.

The fact that Savings-Bank Life Insurance is not guaranteed by the State is effectually obscured; so also the fact that it is not guaranteed by the savings bank. The law reads as follows: "The assets of one Department of the Bank are not liable for nor applicable * * * to the liabilities of the other." The name Massachusetts Savings-Bank Life Insurance does not signify guarantee by the State nor by the Savings Bank; the Institution is distinctly without the guarantee of either.

The statement in the literature that savings-bank life insurance "is not State insurance" is of little weight against the practical misrepresentation constituted by State House headquarters and use of the State Seal. Where the specific statement may be read by a single person, the fact of State House domicile and literature bearing the Seal is taken as proof by the multitude. It is scarcely possible to overestimate the value to Savings-Bank Life Insurance of these evidences of guarantee. Prestige is without price. The annual rental above referred to might not be an exaggeration if doubled. But even an annual rental of \$7,500, compounded at 5%, would amount to more than \$400,000.

SIGNIFICANCE OF SUBSIDIES

It is unmistakable that the present admitted assets of Savings-Bank Life Insurance must include the sums thus saved, for the simple reason that the banks were not required to pay them out. They represent totals as follows:

Present accumulated value of State subsidies-----	\$1, 100, 000
Similar value of private subsidies-----	500, 000
Present accumulated value of tax exemption-----	600, 000
Accumulated value of free rent, light, upkeep, service-----	400, 000
	<hr/>
	\$2, 600, 000

The significance of the foregoing tabulation may be viewed as follows: Taking as a guide the admission made by Professor Berman as to subsidies and financial advantage with which Savings-Bank Life Insurance has been favored, and applying a rate of interest lower than the rate which the Institution has been accustomed to employ as the basis for dividend distribution to policyholders, it appears that more than fifteen percent of the entire ledger assets—\$17,143,474.94, at October 31st, 1934—has come from sources other than those which properly belong to truly mutual life insurance.

RELATIVE COSTS

The foregoing pictures the effect upon the present asset condition of Savings-Bank Life Insurance due to outside assistance which "private" mutual life insurance companies have never had. It is well to consider, therefore, the effect of these monies upon the dividends and net cost of Savings-Bank Life Insurance as compared with similar costs on the "private" companies. Disregarding entirely all interest it appears that the four principal items—

Subsidy by the State-----	\$551, 146. 22
Savings Bank Insurance League—Benefactions-----	256, 500. 00
Specific tax exemption-----	439, 634. 25
Free rent, light, upkeep, service-----	(app.)202, 500. 00
	<hr/>
Amount to-----	\$1, 449, 780. 47

The total of annual dividends paid by Savings-Bank Life Insurance through its entire history is officially given, October 31st, 1934, as \$6,651,136.96, so it is clear that twenty-two percent of the entire dividend to policyholders has been supplied from funds other than those created by policyholders. Professor Berman presents an elaborate table of cost comparisons between the average of ten selected life-insurance companies and the average of seven savings insurance banks, based upon actual history of policies over a ten-year period, net cost less cash value being the test. That illustration shows costs altogether favorable to savings-bank life-insurance policyholders.

Were the dividend figures given in the book to be decreased, however, by twenty-two percent, the result would be quite different. Taking the average of the nine mutual companies used and the same seven savings banks, the comparison appears just slightly favorable to savings-bank life-insurance policyholders—a percentage of the premiums so small that, without the adventitious aid which savings-bank life insurance has received from the beginning, the Institution could never have claimed costs sufficiently lower than those of “private” companies to justify advertising that fact.

No account has been taken of the expense incurred by the original founders prior to the formation of the Savings Bank Insurance League, but literature indicates that such expenditure was very generous. No account has been taken of the expense incurred on behalf of Savings-Bank Life Insurance by the Associated Industries of Massachusetts. This cost is considerable, and is indicated in the book, viz: “A Secretary who devotes his time exclusively to the promotion of Savings-Bank Life Insurance is employed by the organization.”

No account has been taken of the fact that the savings departments in some instances are charged with expenses of administration properly chargeable to the insurance department. With these items brought into the calculations, it is probable that average cost to policyholders in the seven selected insurance banks would not be less, but more, than the average costs in the mutual companies selected by the author. Such then is the background from which is so insistently reiterated the claim that Savings-Bank Life Insurance is cheaper because no agents are employed and no commissions paid.

ALLOCATION OF EXPENSES

The allocation of expenses between the insurance and savings departments of the banks calls for further comment. The author has devoted about thirteen pages to refute the criticisms very generally made as to allocation of costs, i. e., rent and salaries, as between the depositors' department of each bank and the life-insurance department. The ledger assets of the insurance department and the savings department have been taken as criteria for the allocation of expenses. The arguments advanced are by no means acceptable. The conclusion reached, which is in effect that the life-insurance department of the banks has actually subsidized the depositors' department, instead of the reverse, as charged, leads surely to convict the author of bias.

Trustees of Massachusetts savings banks possessed of intimate knowledge as to the work involved in purely savings bank operation and likewise possessed of a broad experience with the practical transactions necessary to the carrying out of life-insurance contracts, reject the author's contention, and declare his findings wrong. Consider the following inconsistencies: Of the twenty-one banks operating life-insurance departments it is a fact that during the insurance year ending October 31, 1932, nine banks charged both salaries and rent; ten banks charged neither salaries nor rent; two banks charged salaries and no rent.

Quoting from the book: “In the year 1932 only one of the eleven banks which came into existence during the period from 1929–31 paid anything, either as salaries or as rent. In 1933 six of these banks paid no salaries and eight paid no rent. In the latter year one of the insurance departments paid only \$12 under the head of salaries for the whole year. In 1934 one bank paid neither salaries nor rent, and six others paid no rent.” The insurance department of the bank which paid only \$12 in salaries for the year 1933 occupied an entire floor in a separate building in downtown Boston and employed nine or ten full-time clerks. Evidently there is a vast difference of opinion amongst Trustees as to the meaning of equitable apportionment, yet in the law appears the following: “Expenses pertaining to the conduct of both the savings department and the insurance department, such as office rent and the salaries of general officers, shall be apportioned by the Trustees equitably between the two departments.”

SEGREGATION OFFICIALLY URGED

The Special Commission for Investigation and Study of the Banking Structure of Massachusetts (created by Chapter 35, Resolves of 1933), in its report of January 1934, said: "When savings banks were authorized to form a department of life insurance, the law provided that this department should be a distinct entity, but did not provide any effective means for the segregation of the expenses of this department from the general expenses of the savings bank itself. The result has been that some life-insurance departments connected with savings banks have been charged nothing for rent, and, in some instances, little or nothing for clerical hire or management. It is believed that the interest of the public requires that the expenses of the life-insurance departments in our various savings banks should be uniformly maintained and segregated from the general expenses of the savings bank itself so that the cost of such insurance may be fairly computed and that the rights of depositors and policyholders may be mutually protected."

To take as the basis for determination of two most important expense items, namely, salaries and rent, relative ledger assets ascribed to depositors' accounts and to insurance accounts, respectively, is to ignore the nature of the life-insurance business; it is almost to deny that life insurance is a business. The two departments could not be subject to the same relative expenditure in respect to any single particular, other than investment expense.

THE LIFE-INSURANCE CONTRACT

It is well to review some of the essential provisions embodied in a contract of life insurance that require the attention of a legal department, a medical department, a mathematical department, an accounts department, very often executive action, and in all instances clerical attention; transactions that are altogether absent in the relations of a savings-bank depositor and his passbook. Premiums upon life-insurance policies are payable annually, semiannually, quarterly, or monthly. The privilege of changing from one method to any other is exercised very frequently by policyholders. A policy with premiums payable monthly requires twelve different clerical processes in the sending of premium notices and requires twelve more similar activities in acknowledgment of receipts. Such a policy, and monthly premium policies are generally very small in amount, requires twenty-four clerical entries as compared with perhaps two for the average deposit account.

Changes in the method of premium payment upon policies require, if from a higher basis to a lower basis, the return of the policy for proper endorsement and alteration, not only upon the books of the savings insurance department, but also upon renewal receipts. All policies provide for changes of beneficiary. Such changes very often are made; more than one in a single year is not infrequent. The question of insurable interest is one of nicety and is involved in all beneficiary changes. The opinion of a legal department or that of an informed executive may often be necessary before the policy may receive a proper endorsement of beneficiary change. All policies provide for at least four different methods of using dividends. They may be taken in cash, applied to reduce premiums, upon the addition plan, or left to accumulate at specified interest. Changes from one plan to another are permitted and are very frequent. Again changes in the method of using dividends may be complicated with the methods of premium payments, requiring cautious mathematical calculation.

NONFORFEITURE PROVISIONS

The life-insurance policy contains three separate nonforfeiture provisions, one of cash value, one of paid-up value, and one of extended term insurance. Policies under which premiums have ceased for any cause require a wholly different book-keeping entry from that which has been followed during the premium-paying period. The exercise of any option, other than the automatic option, should have personal attention of an able clerk. Frequently executive attention is very much needed. The question of reinstatement arises, not merely as a routine matter, but demanding medical attendance.

The life-insurance policy is subject to assignment. The execution of a proper and valid assignment may be one of great delicacy. There is an important difference between an assignment as collateral and an absolute assignment. Such papers need to have the careful scrutiny of experienced life-insurance executives, or clerks of highly specialized knowledge. The life-insurance policy provides by its terms that loans may be had at any time after it has been in force for six

months. The granting of a loan, however, may be hindered by the need of proper signatures to the loan certificate or note. If the beneficiary is an absolute beneficiary, her signature must be secured. She may be in a distant land, necessitating cautious correspondence. Similarly the making of a loan may be subject to the requirements of an outstanding assignment, and assignments are sometimes cancelled but not registered upon the books of the company or bank.

The making of loans upon life-insurance policies are often not mere matters of routine. A single transaction may concern the insured and several beneficiaries, needing the supervision of an experienced life-insurance expert. Policies contain three different options of settlement. The proceeds may be taken in cash, they may be taken in installments, or left at interest in the keeping of the company or bank. Part of the proceeds may be applied under one option, and a part under another option. There are endowments maturing with the interests perhaps of several beneficiaries to be conserved. This is often the case also with death-claim papers.

In all regular companies these matters are simplified by the agents of those companies, to the comfort and advantage of policyholders. These are unremunerated duties and responsibilities that belong to the field agent or solicitor. It is reasonable to believe that in the absence of a regular Agency system very much more administrative detail must fall upon the employees of the banks.

THE RADICAL DIFFERENCE

With such a radical difference in the nature of the transactions of the insurance department and those of the savings bank proper, the allocation of salaries and rents between the two departments, taking the relative ledger assets of the two as a criterion, must be rejected. Although Professor Berman admits the imperfections and inadequacies of this method, he waves them aside and accepts the results of such allocation as conclusive, with the statement that no one has been able to suggest a better method.

Yet the author himself (in a footnote in fine print) states "for the future the Banks might well distribute joint expenses on the basis of an analysis of the number of transactions and the average time consumed by each class of transactions in each Department." No general basis of allocation such as ledger assets or income can be accepted as satisfactory unless tested by some analysis. If an analysis of this nature were made on correct principles of cost accounting, the insurance departments would undoubtedly incur expenses substantially greater than those allocated on the basis of ledger assets and greater than those actually charged.

DEPARTURE FROM OBJECTIVE

It will be noted that cost comparisons have been made between savings-bank life insurance and ordinary insurance issued by regular companies. Let it here be stated that Industrial insurance is not a consideration in this treatise, because savings-bank life insurance issues no weekly-premium contracts, i. e., Industrial policies. The designated beneficiaries of the original savings-bank life-insurance scheme were the persons who could afford only a small amount of insurance. All early literature of the Institution was aglow with philanthropic purposes.

From the original objective Savings-Bank Life Insurance has departed far. It has not a single Industrial, i. e., weekly-premium, policy on its books. It seeks precisely the same business as is sought by the regular ordinary companies. That the savings banks have not been successful in selling their insurance to people who could afford only a few hundred dollars of life insurance is made obvious by the fact that the average amount of the individual policies in force (i. e., excluding Group insurance) at the present time is about \$911. Since the amount that can be written in any one policy is limited to \$1,000, it appears that the great majority of people who are insured by the savings banks are those who can afford at least \$1,000 of insurance.

The development of this business has been in the direction of making the insurance more readily available to persons who can afford the larger amounts. Facilities are now at hand whereby a person can enter one savings bank and apply for insurance up to \$23,000, i. e., \$1,000 in each of the twenty-three banks having insurance departments. This maximum amount will naturally increase if more banks establish insurance departments.

Here, then, is the wide departure from the original purposes of savings-bank insurance. Extensive tabulations appear in the Department of Labor Publication in defense of these very just criticisms. One table shows that in a certain three months' period of 1934 only 109 persons applied for insurance in amounts

from \$5,000 to the then maximum of \$21,000. The reader is left to suppose that this is a small number in comparison with those who have sought the lesser amounts. This is true enough. The volume of insurance, however, is of different proportions, for the amount represented by these 109 applicants is almost \$800,000.

NOT RESTRICTED TO SMALL AMOUNTS

It is reasonable to believe that other three months' periods of the year show very similarly. That would mean a total of new insurance applied for on the lives of those far removed from the Industrial class amounting to \$3,200,000—or about one-third of that year's business. There is justification for assuming that the new business of other years would show like division in respect to the amounts applied for. This would indicate that about one-third of all outstanding ordinary insurance has been applied for in amounts of \$5,000 or more.

It is necessary, however, to add a considerable volume to which the new applicants form an addition, for Savings-Bank Life Insurance boasts of many repeaters. If tabulations were available for amounts below \$5,000 the conclusion would inevitably be reached that the bulk of the ordinary insurance acquired by the savings banks is of a class far removed from the Industrial. A comprehensive statement as to the truth of these things would prove interesting to the public, instructive to legislators everywhere, perhaps disturbing to the Officers and Trustees of the savings banks, and undoubtedly disillusioning to those who have contributed generously to the furtherance of a cause presumably philanthropic. More than this, such statement of facts should be useful to the Tax Economist, because the only excuse for the exemption with which Savings Bank Life Insurance is favored is the alleged charitable character of the Institution.

MORTALITY RATIOS

Further evidence that the less fortunately situated people are not reached to any considerable degree by the savings banks may be found in the mortality ratios of savings-bank insurance. The mortality experienced under Industrial policies is much higher than under ordinary policies arising, of course, from the different economic status of the Industrial policyholders. This higher mortality is an important factor in the higher cost of Industrial insurance. These same Industrial policyholders would, of course, die just as fast and increase the cost of insurance by reason of the higher death rate, if they were insured in the savings banks. If the savings banks insured the same classes of persons as are now insured under Industrial policies, it is obvious that they would experience the same mortality as the Industrial companies and that the cost of insurance in the savings banks would be very materially increased.

The Department of Labor Bulletin states: "It is pertinent to point out, however, that there is general agreement that Savings Bank mortality ratios are relatively low." It also states: "The fact that Savings-Bank Insurance is relatively new may properly be given some of the credit for the favorable mortality rate which it enjoys." If the standards of selection, physical, moral, and financial, are the same, the ratios of mortality between life-insurance institutions will vary only in the proportion that the number of newly selected lives bears to the whole. In Savings-Bank Life Insurance the new business is in vast preponderance, with the result of a ratio fictitious—in that it is neither permanent nor evidence of better selection.

The life-insurance companies employ the ablest examiners in all communities, and pay a proper fee for the service. Savings-Bank Life Insurance pays a much smaller fee, and systematic investigation of the moral and financial hazard is not ordinarily required. Certain it is that the law of mortality has not been suspended in favor of persons insured in the savings banks—nor can a lesser ratio of deaths be accepted as proof of superior judgment in a most important function—the selection of life-insurance risks.

QUESTION OF "RELATIVE SECURITY"

It has already been pointed out that on November 1st, 1935, Savings-Bank Life Insurance adopted for its future transactions that higher reserve basis which for many years has predominated amongst the regular mutual life insurance companies. Life-insurance reserves and the basis for their determination is the first test of company strength; surpluses are wholly supplementary thereto. The question of "relative" security between the regular companies and Savings-Bank Life Insurance is dealt with in a carefully prepared table by the author of the Department book. On the basis of averages through a ten-year period, 1923-32,

a ratio surplus to reserve is given for Savings-Bank Life Insurance, 10.3%; and for the Life-Insurance companies, 7%. The comparison is incomplete and misleading. The reserves on all outstanding insurance in the savings banks issued prior to November 1935 are upon the lowest basis which the law of Massachusetts permits; whereas in a number of companies the reserves are upon the highest basis known to American life insurance. The more ample the basis of reserve the less is there need for surplus.

RESERVE AND SURPLUS

The close interrelationship between reserve and surplus is easily illustrated. A certain company has insurance in force amounting to almost precisely two billion dollars; all reserves are on the maximum basis. Careful mathematical calculation has shown that the placing of these reserves on the lower basis, i.e., the same used by Savings-Bank Life Insurance, would result in the automatic addition to surplus of eighteen million dollars. Conversely then, the raising of these reserves to the higher basis would cause a reduction in surplus of eighteen million dollars.

Savings-Bank Life Insurance has in force one hundred million, or just one-twentieth that of the company cited; by analogy, therefore, the establishment of its reserves upon the higher basis would necessitate a reduction of surplus by one-twentieth of eighteen million, i.e., nine hundred thousand dollars. The surplus of Savings-Bank Life Insurance has elsewhere been given as one million three hundred thousand dollars, so that there would—by this logical test—be only four hundred thousand dollars remaining in the surplus column.

So much for the Policy reserves. Savings-Bank Life Insurance, however, has more than three and one-half millions of Annuity reserves on a still lower basis—for on this amount four percent must be earned. It is safe to say, therefore, that the raising of reserves to the maximum basis—such that every Policy and Annuity contract would be met and solvency maintained if only three percent should be earned—would leave the Institution pretty nearly devoid of surplus. Comparisons of surplus are neither adequate nor honest unless and until these major liabilities of all companies—Policy and Annuity reserves—have been raised or lowered to the same standard of valuation.

The subject of "relative security" is deserving of further attention. The Attorney General of Massachusetts, addressing the American Bar Association at Grand Rapids, August 29th, 1934, upon the question of Government Guarantee of Bank Deposits, and arguing against subjecting Massachusetts Savings Banks to the proposed law, said: "The experience of the Massachusetts Savings Banks discloses a remarkably sound and solvent system of banks. From 1833 until 1913, only thirty savings banks were possessed by the Bank Commissioner and liquidated. Of these, five were voluntary liquidations; in eight, 100% or more was paid the depositors; in four, between 90% and 100% was paid; in only two cases was less than 75% paid; and in only one case was less than 50% paid. During the recent banking collapse only two savings banks were closed, and one has reopened and the other will shortly."

A striking contrast appears. Savings-Bank Life Insurance literature is responsible for the statement that "No mutual legal reserve life insurance company in Massachusetts has ever failed." The more significant and consequential fact is that in all the United States no strictly mutual legal reserve life insurance company of any importance has ever failed. Mutual savings banks and mutual life insurance are near contemporaries. Both had their beginnings about one hundred years ago.

"INSTRUCTORS" OF THE BANKS

It is an assertion altogether misleading that savings-bank life insurance is cheaper than regular mutual life insurance, because it is conducted without agents. The statement that it employs no agents is not complete. In the Department book is mentioned the fact that "Instructors" are employed; it is admitted that their work is not unlike that of solicitors in private companies. Moreover the Deputy Commissioner of Savings-Bank Life Insurance appears constantly in the role of agent, particularly that of Manager or General Agent. "Instructors" are not subject to licensing requirements, whereas all agents of the regular companies are obliged to pass a written examination, prepared by the Commissioner of Insurance, intended to prove qualification. No license is granted until this test has been passed.

The Department of Labor publication recites the fact that in August 1934 there were three hundred and thirty-four "agencies" from which Savings-Bank

Life Insurance could be secured. These included employers' agencies, credit unions, and savings banks. Since each of these "agencies" may assign a number of employees to this type of work, there are quite likely a thousand, and perhaps several thousand, individuals not only giving life-insurance advice but permitted and authorized to take applications for savings bank life insurance—unlicensed, without training, equipment, or special knowledge of an altogether vital subject. These individuals recognize no ethical code whatsoever. They may and do wilfully, or from ignorance, urge, and practice "twisting" of policies from the regular companies; they may misrepresent with impunity, whereas special penalties are provided by law and inflicted on the regular licensed life-insurance agent who is guilty of such misconduct.

Savings-Bank literature persistently decries the good offices of the life-insurance agent, yet it is unquestionably true that a very large proportion of the volume now in force in Savings-Bank Life Insurance is the direct result of agents' work. A goodly number of policyholders have been secured by those employed on salary, for specific reasons styled "Instructors," rather than agents. The volume, however, is small in comparison with that which is procured through the conscientious, intelligent, hard work of those actually engaged in the life-insurance business. These agents have, in the regular processes of solicitation, so thoroughly demonstrated the uses of life insurance as an economic factor in modern living that they have created appreciation amounting almost to demand. Persons thus favorably minded listen to the arguments of "Instructors" who frequently address large groups; they are allured by savings-bank life-insurance advertising, and insidious literature widely distributed—all urging that the entire agent's commission will be saved by application to the banks instead of to the life-insurance companies.

To an extent far greater than guessed, Savings-Bank Life Insurance is the everyday recipient of a large volume of new business that comes wholly from the work of the regularly licensed life-insurance agent. Business thus procured is erroneously styled "over the counter." Nor is that all; the same term is applied to a large number of policies lapsed daily from companies of highest class, and on the same urge of "cheapness," "because no agents' commissions are paid." Savings-Bank Life Insurance thrives upon the exertions of others. So far from being proof that Life Insurance may be successfully carried on without agents, Savings-Bank Life Insurance furnishes most substantial proof to the contrary.

Savings-Bank Life Insurance has been in operation twenty-eight years. It is not yet self-supporting. No life-insurance enterprise in the history of America has been so widely proclaimed and praised by its protagonists, so substantially aided by philanthropy, nor so highly favored by legal enactment and State aid. In twenty-eight years it has accumulated a grand total of insurance in force slightly in excess of one hundred million dollars. This is just two percent of the insurance in force in Massachusetts and just a one-thousandth part of the one hundred billion dollars of insurance in force in the United States and Canada. This latter amount is nearly three-quarters of the life insurance in the whole world. The foremost place of this country in life insurance is the unquestioned direct result of solicitation under the American Agency System. That the agent has paid his way is not a subject for dispute. The comparative costs previously set forth furnish sufficient evidence that the services of the agent are rendered to the insuring public at expense that is justifiable. All the achievements of American life insurance, including whatever may be credited to Savings-Bank Life Insurance, prove the agent and his worth.

ATTACKS ON LIFE INSURANCE

Unfortunately, Savings-Bank Life Insurance has added nothing to the institution of mutual Life Insurance. Both positively and potentially it has hindered. Through the years, in ever-increasing number, books, pamphlets, magazine articles, even syndicated newspaper columns—all replete with attacks on the regular life-insurance companies—have been making their appearance. Agency expenditures are held up to view as unwarranted. Incomplete cost comparisons offer illuminating portrayal of unusual advantage. Investments, even the security of the companies themselves are assailed—while Savings-Bank Life Insurance becomes the glorified example of economy, equity, investment sagacity, and security. The damage to the economic security of the nation cannot be measured.

The status of Savings-Bank Life Insurance with respect to the community in which it exists is of peculiar order. Mutual life insurance companies have always paid their way and more. Mutual savings banks have paid their own way. Savings-Bank Life Insurance has never paid its way. It has been a burden to

the State. It continues to be a burden because of State favoritism through tax exemption of its life insurance funds. It wrongfully flourishes the aegis of the State. Its position as to the correctness of its relations to savings-bank depositors is in the light of strong evidence open to serious question. Monies that it has received from individuals benevolently inclined to aid workingmen have come to serve another purpose. Its attitude toward life-insurance companies—field men in particular—is one of outright hostility, proof of which is plentiful as witness the pamphlet, "Massachusetts' Great Insurance War," sponsored by a former Deputy Commissioner of Savings-Bank Life Insurance, and the following issued by the present Deputy Commissioner: "There isn't any excuse for the insurance companies to go into the banking business—they don't even do the insurance business as well as the savings bank does."

Life insurance is both a business and a profession of science. It involves the most precise teachings of mathematics; it requires the best that the medical profession affords; it is a business of contracts, and therefore embraces the finest principles of law. Actuarial Science and Life Insurance are largely synonymous. All these are prerequisites. It is not and never can be the province of mutual savings banks to foretell and guarantee interest; this is in fact forbidden. Banking principles which form no part of savings bank finance are in life insurance structural and fundamental.

WHY LEGAL RESERVE INSURANCE?

Defiance to all human endeavor in the quest of the absolute will ever continue; security is, after all, a relative matter. The words of a distinguished American are appropriate: "The Life-Insurance companies have lived through the Mexican War, the Civil War, the Spanish War, and the World War. They have been through epidemics of cholera, yellow fever, and influenza. They have seen every type of devastating natural disaster—floods, droughts, tornadoes, blizzards, earthquakes; boll weevils and other insect enemies of prosperous agriculture. They have survived the financial throes of the major and minor depressions of '57, '65, '73, '84, '93, '07, '14, '21, and '29. They have withstood many adjustments of commodity prices. They have experienced wide ranges in interest rates, and high and low market prices of securities. They have listened to prophets of woe in time of business paralysis, and to the celebrants of joy during the extravagance of speculation. Notwithstanding all these calamities they have uninterruptedly kept every obligation."

Appropriate also is the following from the New York State Superintendent of Insurance: "No legal-reserve life-insurance company in this state failed during the depression. Few life-insurance companies throughout the nation have failed. It is estimated that loss to policyholders in the country from failure of life-insurance companies has been less than one-tenth of one percent. It is probable that no other industry or business can show such a record as this."

The social significance of the service performed by life-insurance companies operating through established agencies the country over, during nearly one hundred years, has been of educational value beyond the power of anyone to estimate. That the people of the United States carry very much more life-insurance protection than any other people in the world is illustrative of this fact. The insurance-mindedness of this nation will be maintained by the same educational forces that created it, and it will continue to withstand the criticism of theorists and experimentalists.

[Stamped: L. E. C. Jan. 25, 1937.]

[Notation: Rhode Island, H. B. 883.]
[Initialed: V. P. W. B. H. C.]

EXHIBIT No. 723

[From files of The Association of Life Insurance Presidents]

APRIL 29, 1937.

GUY A. SMITH, Esq.

*President, Wilkes-Barre Association of Life Underwriters,
% Metropolitan Life Insurance Company,
Miner's National Bank Building, Wilkes-Barre, Pennsylvania.*

DEAR MR. SMITH: In connection with House Bill No. 883, now pending in the Pennsylvania Legislature, authorizing savings banks to issue life insurance, I am sending to you today 25 copies each of the following material on the subject:

(1) Printed pamphlet on savings bank life insurance by Mr. Floyd E. DeGroat, of Boston.

(2) Mimeographed copy of a statement on the same subject by Hon. M. Joseph Cummings, Chief of the Division of Banking & Insurance of Rhode Island.

This material is not intended for general distribution, but is sent to you for the personal information of yourself and the leading members of your Association, so that you may be fully informed on the experience of this system in Massachusetts, the only state which has ever adopted such a plan.

Trusting this will be helpful to you, I am,

Sincerely yours,

Manager and General Counsel.

VPW. MT.

[Notation: Rhode Island. H. B. 883. Pa. H. 883.]

[Initialed: V. P. W. (?)]

THE WILKES-BARRE ASSOCIATION OF LIFE UNDERWRITERS

[The National Association of Life Underwriters' seal]

ROOM 230 MINERS BANK BLDG.,
Wilkes-Barre, Penna., May 3, 1937.

(Stamped) Rec'd 1937 May-4-AM 11:03.

Mr. VINCENT B. WHITSITT,

Manager and General Counsel, The Association of Life Insurance Presidents,
165 Broadway, New York City, N. Y.

DEAR MR. WHITSITT: Upon receipt of your April 29th letter, with publication from the Honorable M. Joseph Cummings, and Mr. Floyd E. DeGroat, I am pleased to inform you that the Wilkes-Barre Association of Life Underwriters, which represents all the "Old Line" Companies, and which are approximately five hundred in number, were very much in accord with your letter, and immediately contacted all State Senators, and each member of the House of Representatives, including the Chairman of the Insurance Committee, and protested strongly against House Bill No. 883.

Undoubtedly, such an avalanche of telegrams and personal calls has never before been received by these individuals. We have had definite assurance from them that the Bill will be strongly opposed.

I write this word that you may know your letters have not dropped by the wayside.

We are whole hearted in guarding the fair name of the Institution of Life Insurance and strongly oppose any encroachment such as this Bill No. 883 represents.

Very truly yours,

(Signed) GUY A. SMITH,
President, Wilkes-Barre Assoc. Life Underwriters.

Notation: No ans. V. P. W.

EXHIBIT No. 724

LOBBYING

(From the Report of the Joint Committee of the Senate and Assembly of the State of New York Appointed to Investigate the Affairs of Life Insurance Companies, pp. 398-402, Vol. X)

Nothing disclosed by the investigation deserves more serious attention than the systematic efforts of the large insurance companies to control a large part of the legislation of the State. They have been organized into an offensive and defensive alliance to procure or to prevent the passage of laws affecting not only insurance, but a great variety of important interests to which, through subsidiary companies or through the connections of their officers, they have become related. Their operations have extended beyond the State and the country has been divided into districts so that each company might perform conveniently its share of the work. Enormous sums have been expended in a surreptitious manner. Irregular accounts have been kept to conceal the payments for which proper vouchers have not been required. This course of conduct has created a widespread conviction that large portions of this money have been dishonestly used. Andrew C. Fields, who represented both the *Mutual* and the *Equitable* in legislative matters, and

was in control of the supply department of the former company, remained beyond the jurisdiction during the sessions of the committee. The general solicitor of the *Mutual*, to whom the chairman of the committee on expenditures entrusted large sums, died just before the beginning of the investigation and apparently left no account as to how the money had been spent. Andrew Hamilton, who, within ten years, received upwards of \$1,000,000 from the *New York Life* on the warrant of its President in connection with its bureau of legislation and taxation, has remained abroad and has failed to render any proper account showing the disposition of the money. The officers of the company say that they have no knowledge of the uses to which it was put. The officers of the *Equitable*, from whom light might have been expected on the disbursements of their company, either have remained out of the jurisdiction or have been disabled by illness. On account of the absence of the necessary witnesses and the lack of proper vouchers, the committee has been unable to trace the moneys said to have been disbursed in connection with legislation. But while it is sufficiently evident that large sums have been disbursed for improper purposes, it is also clear that payments for confidential outlays exempt from audit have furnished abundant opportunities for misappropriations. They suggest the necessity of requiring a strict accounting from those who are responsible for the payments as well as from the agents who have received the moneys.

It has been insisted that the insurance companies have been so continuously menaced by the introduction of improper and ill-advised legislative measures in many States that they have been compelled to maintain a constant watchfulness and to resort to secret means to defeat them. An insurance corporation, however, holds a position of peculiar advantage in opposing any legislative measure which really antagonizes the interests of policyholders. A very large proportion of the voters of the State hold policies of life insurance. It is easy for the company to apprise them of hostile legislative measures, and in addition a department of the State government exists for their protection, whose recommendations have rarely failed to receive proper consideration in the Legislature. It is not a difficult matter to direct public attention to an objectionable bill affecting life-insurance corporations or to have opposing argument and criticism effectively presented. Again, if, in spite of argument fairly and publicly presented, the Legislature insists upon passing a law inimical to the true interests of the companies, it is not the officers, but the policyholders, who must bear the loss, and the consequences which can readily be pointed out are almost certain to bring about an early repeal of the obnoxious legislation. The employment of agents to disburse large sums, and of clandestine methods to defeat legislation is wholly inexcusable.

The pernicious activities of corporate agents in matters of legislation demand that the present freedom of lobbying should be restricted. They have brought suspicion upon important proceedings of the Legislature, and have exposed its members to consequent assault. The Legislature owes it to itself, so far as possible to stop the practice of the lavish expenditure of moneys ostensibly for services in connection with the support of or opposition to bills, and generally believed to be used for corrupt purposes. The Legislature should free itself from the stigma which now attaches to the progress of measures affecting important interests. The laws against bribery and corruption, offenses which are difficult of proof, are sufficiently stringent, but an effort should be made to strike at the root of the evil by requiring under proper penalties full publicity with regard to moneys expended in connection with matters before the Legislature. Corporations should be required to keep accounts and vouchers in which all such payments should be fully detailed and receipted for, and an adequate statement regarding them should form a part of such reports as may be required.

In the case of insurance corporations the remedy lies first, generally, in the requirement of a proper authorization of all expenditures and vouchers, stating in detail the purposes for which moneys paid for legal expenses or in connection with legislative matters have been expended. And, further, the company should be compelled to set forth in its annual statement to the Superintendent of Insurance all sums so disbursed, giving the names of the payees, the amounts paid, and the specific purpose of the payment.

Professional services in promoting or opposing legislation may be entirely honorable and are frequently necessary. In England members of the so-called Parliamentary bar have been held in deserved esteem. The drafting of bills and the presentation of arguments for and against their enactment before legislative committees call for a high order of professional ability. In Massachusetts and in Wisconsin statutes have been passed requiring that persons who professionally advocate or oppose legislation affecting corporate interests should enter regular appearances and disclose for what clients they are acting. In Wisconsin it is

made a misdemeanor for any person to accept a fee contingent upon the passage or defeat of a pending measure, and by statute passed there in 1905 it is made unlawful for any person employed for a pecuniary consideration to attempt personally to direct or influence a member of the Legislature to vote for or against any pending measure otherwise than by appearing before regular committees, by publications or public addresses, or by statements, arguments, or briefs delivered to all members of the Legislature and filed in the office of the Secretary of State. We are not inclined to recommend legislation on this subject which will interfere with the presentation to a legislator of the views of his constituents or of citizens generally, but we believe that where legislation is opposed or promoted by paid professional advocates the matter should be the subject of suitable regulation.

The Committee therefore recommends that the Legislative Law be so amended that every person retained or employed for compensation as counsel or agent to promote or oppose the passage of bills or resolutions by either House or executive approval of such measures shall before entering upon the service file in the office of the Secretary of State a writing stating the name or names of his employer, together with a brief description of the legislative matter with reference to which the service is to be rendered. The Secretary of State should be required to provide a docket to be known as the "Docket of Legislative Appearances," with appropriate blanks and indices in which the names of counsel and agent may be properly entered. Fees contingent upon legislative action should be prohibited. It should also be made the duty of every corporation and association doing business in the State within two months after the adjournment of the Legislature to file with the Secretary of State an itemized statement duly verified showing in detail all expenses paid or incurred in connection with legislation pending at the last session, including all disbursements or compensation paid or payable to counsel or agents. Exception may be made of the duly accredited counsel of municipalities, public boards and public institutions, and also of the ordinary professional services in drafting bills or advising clients as to the construction and effect of proposed or pending legislation where the professional service is not otherwise connected with legislative action. Violation of the law should be made a misdemeanor, and the failure to file the statements required should subject the offender to appropriate penalties.

EXHIBIT No. 725

[From files of The Association of Life Insurance Presidents]

[Notation: Rhode Island. H. B. 793.]

[Initialed: S. V. B. (?)]

PURITAN LIFE INSURANCE COMPANY OF RHODE ISLAND

Executive Offices, Providence, R. I.

Directors: Henry D. Sharpe, President; Edmund D. Chesebro; Harold C. Field; John Johnston; Eben N. Littlefield; Stephen O. Metcalf; Arthur L. Perry; Edward H. Rathbun; William P. Sheffield; Henry G. Thresher; Clinton C. White.

MARCH 22, 1935,

(Stamped) Rec'd 1935 Mar. 23—AM 8:14.

Re House Bill #793—Savings Bank Insurance.

ASSOCIATION OF LIFE INSURANCE PRESIDENTS,

165 Broadway, New York, N. Y.

(Attention Charles F. Creswell, Statistician.)

DEAR MR. CRESWELL: This Bill, I feel, is a serious one to life insurance interests and is taking considerable time. From all I can ascertain the following is the situation: The Bill still rests in the House Finance Committee. Fortunately a member of this Committee is Mr. Charles Brown, General Agent of the Columbian National and he naturally is opposed to the Bill. Today I spent an hour with him and went thru the Bill very much in detail, and I am sure that he will do everything possible to hold it back. This noon we had a meeting of the General Agents of Rhode Island and at their request I reviewed the Bill with them and presented the objections. Very fortunately Mr. Tracy, the President of the Massachusetts Life Underwriters, was present, and he gave a very fine exposition of the experience in Massachusetts with Savings Bank Insurance, so that the General Agents have a thorough understanding of the Rhode Island Bill and recognize as a result of Mr. Tracy's remarks, the evils and misrepresentations which will probably follow if the Bill is made law. They, however, will not raise too much dust unless it is necessary. Too much opposition with this particular Legislature might give the Bill undue importance.

Unless the Bill is brought out from the Committee before the 50th day it cannot be presented for consideration in the House except by joint consent.

Next Wednesday is the 50th day, and the practice is to bring in all the bills from the Committee so that none will get by. We may, therefore, expect this Bill to be brought out next Wednesday and we hope it will be referred back to the Finance Committee. I have been assured by Mr. Brown that if any particular interest develops within the Committee he will secure a hearing. I will then advise you immediately for of course we will need your assistance, and Mr. Tracy has agreed to appear with one or two others from Massachusetts.

I have questioned whether or not it is advisable to take this up with the officers of some of the savings banks. To be perfectly frank, however, I can imagine some of them who probably know nothing about it at present deciding it would be a good idea, and they might become proponents of the Bill. I have even been informed that some of the banks have already approached some of the members of the Committee in behalf of its passage. Do you think it wise for me to keep away from the banks?

Very sincerely,

(Signed) CLINTON C. WHITE,
Secretary.

EXHIBIT No. 726

[From files of The Association of Life Insurance Presidents]

[Notation: Rhode Island. H. B. 550.]

[Initialed: R. Bacon. B.]

PURITAN LIFE INSURANCE COMPANY,
Providence, Rhode Island, April 10, 1937.
(Stamped) Rec'd 1937 Apr.-12-AM 8:38.

Re R. I. House Bill #550.

THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS,
165 Broadway, New York City.
(Attention Mr. Crane.)

DEAR MR. CRANE: As I informed you under date of March 17, I do not anticipate the enactment of this legislation permitting the savings banks of Rhode Island to engage in the life-insurance business. There is, however, more pressure being brought upon the Governor this year than previously, and I think there is a feeling here that in another year the pressure will be even greater. I appreciate very much the material which you have sent to me as it was helpful in formulating the necessary facts in opposition. Will you pardon me for making a suggestion along a line of thought which to me is fundamental in this whole situation. Let me make the mere suggestion and in your office with you expert ability you can develop it and incorporate it if you see fit in future memoranda.

It seems to me that greater emphasis should be laid upon the fact that by this legislation certain private institutions are granted special privileges which are not granted to the existing private institutions engaged in the same business. I believe that this simple thought can be developed so that it is an unanswerable item. If the State itself were to engage in the life insurance business we would expect the State to avail itself of certain inherent rights. This would be entirely consistent with the prevailing social tendencies of the day, but when a State grants special privileges to one private institution and exempts that private institution from established requirements and regulations which control competitive private institutions there is involved a fundamental principle which I believe would convince any honest citizen. In other words, I feel that the data which we supply our insurance departments and legislators is apt to be interpreted as a defense of our own business. The ignorant legislator will conclude that the life insurance companies are naturally opposed to other competitors in the field. You will agree with me that our opposition would be far less strenuous if private institutions such as the savings banks were permitted to transact the life insurance business under the same rules and regulations which control the existing private institutions of life insurance.

Pressure was brought upon our Governor for favorable action on the savings bank life insurance legislation and he naturally turned to the Chief of the Division of Banking and Insurance for information. I gave to the latter the material which you so kindly sent to me accompanied by a letter, a copy of which I enclose. I am also enclosing copy of the Report which Mr. Cummings, Chief of the Division of Banking and Insurance has made. This has been sent by him to each general agent and to some of the insurance commissioners so that it is not now confidential.

Very sincerely,

(Signed) CLINTON C. WHITE,
Clinton C. White, *Secretary.*

EXHIBIT No. 727

[From files of The Association of Life Insurance Presidents]

[Notation: Rhode Island General.]

[Initialed: V. P. W. B. R. B. C.]

PURITAN LIFE INSURANCE COMPANY OF RHODE ISLAND

Executive Offices, Providence, R. I.

MAY 7, 1937,

(Stamped) Rec'd 1937, May-8-A. M. 8:49.

ASSOCIATION OF LIFE INSURANCE PRESIDENTS,

165 Broadway,
New York City.

(Attention: Mr. Vincent P. Whitsitt.)

DEAR MR. WHITSITT: It was very kind of you to write me as you did under date of the 3rd. I am particularly pleased that we were able to defeat the Savings Bank Life Insurance Bill. As I stated to Mr. Crane previously, I am quite certain that there will be an increased effort on the part of the proponents of this legislation next year. I certainly trust that you will be able to defeat its adoption in Pennsylvania and Connecticut for if adopted elsewhere it will surely influence its acceptance in other states.

Very sincerely,

(Signed) CLINTON C. WHITE,
Secretary.

CCW.

IMM.

[Notation: No ans. W.]

EXHIBIT No. 728

[From files of The Association of Life Insurance Presidents]

COPY OF REPORT BY M. JOSEPH CUMMINGS, CHIEF OF DIVISION OF BANKING AND INSURANCE, OF THE STATE OF RHODE ISLAND, ON MUTUAL SAVINGS BANK LIFE INSURANCE, AS REPRESENTED BY THE MASSACHUSETTS SYSTEM

The Massachusetts law, enacted in 1907, permits mutual savings banks to establish life insurance departments. I might say right here that I am a great believer in letting the banks tend to the banking business and do not think that it is a good plan, as experience has demonstrated, for them to engage in the brokerage business, run travel agencies, engage in the practice of law or invade any other commercial or professional field.

This law evidently contemplated the issuance of insurance policies to only residents of the state and to persons regularly employed in the state, the maximum amount to be purchased from any one bank to be \$1,000.00 of insurance, or a \$200.00 annuity.

As to the original objective, the issuance of apparently philanthropic insurance to persons who could afford only small amounts of protection, which was indeed a worthy objective, Savings Bank Life Insurance has missed the mark.

It does not write Industrial policies; that is, these carrying weekly premiums. I understand that the average amount of individual policies in force (outside of Group insurance) at the present time is about \$910.00. This high average would indicate that those taking advantage of Savings Bank Insurance are not the people the originators of this plan had in mind. With 23 banks as members of this system a person may hold policies totaling \$23,000.00 or annuity contracts yielding \$4,600.00 per annum.

It is true that under the Massachusetts system a Savings Bank Life Insurance policyholder pays less for insurance than does the holder of a policy issued by a private life insurance company, but the following circumstances are worthy of note:

1. In Massachusetts a state subsidy extended approximately 20 years from the inception of the system.

The total dividends paid out by the Massachusetts system since its inception have amounted to \$6,651,136.00. The total subsidies and gratuities extended to the system in the form of direct grants, tax exemptions, and free services have amounted to \$1,449,780.00, or 22% of all dividends declared.

2. Lower taxes are paid by the insurance departments of the banks than are paid by private life insurance companies. State insurance departments are taxed as savings banks, not as insurance companies.

Since its inception, the Massachusetts insurance system has paid one-quarter of the tax that it would have been compelled to pay if the insurance funds were taxed, as such, instead of as savings bank funds, and as private insurance companies are taxed.

3. Insurance fees are not collected by the State from these insurance departments.

4. Acquisition costs for Savings Bank Life Insurance are lower for the following reasons:

(a) Through authorization of law state insurance officials draw up policy forms, prepare tables of rates and tables of loan and surrender values, as well as special tables of mortality for special classes of risks. This simply means that the state assumes all actuarial expense.

(b) The state employs and pays for instructors or educators whose duties are not unlike solicitors in private companies, and also a Deputy Commissioner, whose duties might be compared to those of a general agent.

(c) The United States' Department of Labor in 1934, in a report, mentions that there are 334 agencies from which Savings Bank Life Insurance may be secured, such as employers' agencies, Credit Unions and Savings Banks employees. This method of solicitation leaves the way wide open for any number of individuals unlicensed and without proper supervision to give life insurance advice and to take insurance applications.

It costs money for private companies to train, instruct and supervise their own agents who, in turn, must be examined and supervised by the Insurance Department for the maintenance of which department the private companies are taxed.

5. Other free services furnished by the Commonwealth include those of a medical director, legal services and offices in the state capitol building.

6. In Massachusetts there have been no effective means provided for the proper segregation of operating expenses between the savings banks and their insurance departments. In this way, the Insurance Department escapes the payment of a just and proper portion of expense, and consequently all figures relating to costs are misleading and erroneous.

7. The minimum requirements of legal reserve life insurance companies, such as capital deposits, etc., are higher than those for the insurance departments of savings banks.

8. Another questionable feature of the plan is its misleading title. Many people believe that the name "Savings Bank Life Insurance" means that the total assets of any Savings Bank in the system are in back of the liabilities of the life insurance department. This is not so. The assets of the life-insurance department are segregated and these only are subject to the claims of the policyholders.

9. In the formative years, to insure financial stability, these assets would have to be supplemented by either state or private aid, as was the case in Massachusetts.

10. The Massachusetts system, it must be borne in mind, does not offer the same service as does industrial insurance, as it relates to the method of payment of premiums. Payments are made quarterly, semi-annually or annually the same as in ordinary insurance. It is not possible to pay premiums weekly as is done by practically all of the 887,000 holders of industrial policies in Rhode Island, nor are the services of agents or collectors given for the purpose of making collections in the home of the assured.

In turning to the extract from the magazine "Plain Talk," I offer the following observations:

1. It states "Governors of 47 States can save \$3,209,400,311" and it further claims that Rhode Island policyholders can save \$11,171,826. These statements are not correct for the following very obvious reasons:

(a) \$3,209,400,311 is the total premiums taken in during the calendar year 1935, according to the Spectator Year Book, by the 302 private insurance companies reporting. The writer of the article must admit that even State Bank Insurance costs something, therefore the heading is entirely false, as 100% of the premiums taken in could not be saved.

(b) These premiums were received for many types of policies and insurance not covered by the Massachusetts law, and then only after active solicitation on the part of experienced insurance agents.

(c) The theoretical saving to Rhode Island policyholders is computed by multiplying our State's population by \$16.25. The \$16.25 saving is arrived at by dividing \$3,209,400,311, (total premiums paid in 1935) by the population of the United States and deducting from the quotient so obtained an alleged saving of 66 percent.

As the average principal sum of all industrial policies in force in Rhode Island is \$248.00, it is evident that with an average principal sum of \$910.00, the Massa-

chusetts system cannot be catering to or serving thousands of insured such as are in the lower brackets among our Rhode Island policyholders. This statement recognizes the fact that many insured hold two or more policies.

The total number of industrial policies in force in Rhode Island is 887,869, or 79% of the total policies in force, and it would appear that a heavy percentage of such policyholders would not be eligible to secure the benefits or savings that are afforded by the Massachusetts system.

(d) As the average for all policies under the Massachusetts system is \$910.00, it must follow that no saving would be effected under such a system in the case of policies for substantially larger amounts, and that any attempt to include such policies in a system of computation is futile, disingenuous and false. This statement will be made clear by the following:

There are only 23 banks in Massachusetts issuing such insurance. The maximum amount issued by any bank to any one person is \$1,000.00. It is hardly likely that anyone would make the rounds of any great number of banks to secure the greatest amount of insurance obtainable. Even if this were done, the maximum obtainable would be \$23,000. Assuming that a fairly substantial number of assureds in Massachusetts were to take insurance of as many as ten banks, which I deem very improbable, the total of insurance so obtained would be \$10,000.00. If this figure of \$10,000.00 be taken as a fair maximum, it is evident that in order to make any claim as to actual savings possible to Rhode Island policyholders, all policies in excess of \$10,000.00 must be excluded from the reckoning. To do otherwise is to attempt a comparison of unlike things. This point will be further illustrated by the fact that the average of all ordinary policies in force in Rhode Island is almost exactly \$2,000.00 so that a great number of policyholders representing a vast sum in insurance would be excluded automatically from the benefits conferred by the Massachusetts system.

(e) The claim put forth as to the saving in average yearly net cost is also misleading. This involves a comparison of costs of the Massachusetts system on the one hand, and the costs of various other insurance companies, on the other. This statement showing a variation of \$2.23 to \$11.13 is made without setting forth the terms and features of the various policies upon which the comparison is made, and without this information an intelligent statement as to relative costs is impossible.

(f) Many of the figures contained in this statement are based upon the assumption of the assured's availing himself of the cash surrender feature of his policy. Insurance policies are written, primarily, for the purpose of being retained, not surrendered. The figures contained in the column headed "Average Yearly Net Payments", show no such spread as those computed upon the net cost, with the cash surrender involved in the reckoning. Whereas, the latter Column shows a spread or range of \$2.23 to \$11.13 or a ratio of almost exactly five to one, the figures in the column showing average yearly net payments show a spread or range of from \$16.83 to \$24.63 or a ratio of one and one-half to one. As already pointed out, without information as to the types of policies and their special features, no judgment can be passed as to the relative merits or costs of these forms of insurance.

2. The answer to the small lapsation of Savings Bank Life Insurance policies as compared with lapsation on ordinary policies and industrial or weekly premium policies issued by old-line companies may be supplied in several ways:

(a) As stated before, Savings Bank Life Insurance *does not compete* with Industrial policies to any considerable extent, although that was its original purpose, because in Massachusetts the figure for the average policy in force is around \$910.00, while in Rhode Island the average Industrial policy is for \$248.00, and under the Massachusetts system no weekly premium policies are issued.

(b) Many policyholders of private companies were carrying large lines of ordinary insurance during the boom days which would not be available under the Massachusetts plan. Naturally, these lines were reduced during the depression year.

(c) Many business firms dropped insurance policies on their highly paid executives when operating profits were cut. This type of policy is not issued under the Massachusetts plan.

(d) In the excerpt from "Plain Talk" there also appears the following statement on the subject of lapsation:

"In 1935 only 2¼% of savings bank life insurance policies issued were allowed to lapse. In the same period 35% of the ordinary policies and 76% of weekly premium policies issued by the old-line companies at high rates, were allowed to lapse."

This statement is doubtful or ambiguous in certain respects. For example, it is not exactly clear as to whether the ratios of lapsation, 35% and 76% are computed upon the number of policies written during the year 1935, or upon the number of policies in force during that year. It would appear incredible that any such ratio of lapsation as 76% would prevail in any one year on the policies *actually written* during that one year. This would mean that only one policy out of four would stick. It seems more logical and more likely that what is intended to be set forth is that the total policies that were lapsed during the year 1935 are represented by a number that is equivalent to 76% of the number of policies that were written during the year 1935, the lapsations actually representing policies written *over a period of many years*.

I have before me a copy of "Abstract of Rhode Island Business during the year 1935" as prepared by our Insurance Division.

Under the heading, "Ordinary Business," appears the following:

Number of policies terminated, 1935.....	33, 514
Number of policies in force, December 31, 1934.....	226, 550
Number of policies issued, 1935.....	36, 200
Total number of policies in force and issued.....	262, 750
Ratio of policies terminated to such total.....	12.75%

Under the heading, "Industrial Business," appears the following:

Number of policies terminated, 1935.....	145, 599
Number of policies in force, December 31, 1934.....	884, 213
Number of policies issued, 1935.....	138, 106
Total number of policies in force and issued.....	1, 022, 319
Ratio of policies terminated to such total.....	14.24%

In this connection it is to be noted that the figures from "Plain Talk" are based upon policies "lapsed," while the figures quoted from our Insurance Division are based upon policies "terminated." This gives the "Plain Talk" method a great advantage as it is manifest that thousands of policies would be voluntarily terminated by the holders and so could not be classified as "lapsations". My point is that our figures showing "terminations" are naturally much higher than figures showing mere "lapsations," and would include cash surrenders, surrenders due to change in policies, terminations by death, voluntary relinquishments to reduce expenses of the assured, and many other reasons of a special nature.

The success of the Massachusetts plan may be gauged by the fact that, although it has been in effect approximately thirty years, only 23 mutual savings banks out of 193 in the Commonwealth have seen fit to engage in this type of insurance; that only one state out of 48 has adopted it; that only 2% of the insurance in force in Massachusetts is held by Savings Bank Life Insurance Companies, which amounts to approximately to one one-thousandth part of the insurance in force in the United States and Canada.

If the same percentage of savings banks in Rhode Island were to adopt the system as have adopted it in Massachusetts, it would mean that only one such bank would take advantage of it. (12% of nine banks.)

In conclusion, it might be stated that judging by the experience of this system in Massachusetts, there is no widespread demand for insurance of this type; that any savings, real or alleged, are largely fictitious, in this sense, that to a considerable extent, the supposed savings are at the expense of the general public and that consequently, little actual saving is effected; that it encourages an undesirable situation in the creation of mongrel institutions whose insurance operations apparently have not met with public commendation and support; that it tends to create an atmosphere of falsity as to real costs and an apportionment of expense among the various factors involved; that it has failed to reach and help the class for whose benefit it was conceived, while, at the same time, benefiting a class who do not stand in need of it; that under the cloak of a public benefaction, it is a drain upon the public funds; that it tends, although apparently with no great degree of success, to penalize private industry through means and practices that are seemingly unfair and discriminatory; that it launches, or at least attempts to launch, the savings bank upon a strange sea foreign to its natural activities; and that under state auspices, it creates a favored class of tax dodgers and tax evaders.

It is apparent to me from comparatively cursory examination of the subject that this is a matter requiring deep and prolonged study for a complete mastery of its various phases and ramifications, and that from my official standpoint, as

Chief of the Insurance Division, it is my opinion that the judicious course to pursue is to postpone positive action pending a more definite proof of its merits than has been demonstrated by the facts at hand.

MARCH 29, 1937.

EXHIBIT No. 729

[From files of The Association of Life Insurance Presidents]

[Notation: Rhode Island. H. B. 522.]

[Initialed: B.]

Dated: APRIL 20, 1938.

OFFICE MEMO RE RHODE ISLAND HOUSE BILL NO. 522—SAVINGS BANK LIFE
INSURANCE

Mr. Crane telephoned late this afternoon that this measure was reported favorably today in the House. He anticipates that it is likely to pass the House but feels that it is much less likely to receive favorable consideration in the Senate. He had not seen Mr. White since the bill had been reported in the House and placed on the calendar, but is to go over the matter with him tonight and will pass on to us the result of their conference. Mr. Crane thought they might desire us to get in touch with the companies, seeking cooperation of general agents in the state, but is going to consider first with Mr. White the possibility of seeking such cooperation through the local general agents.

JA.

C. F. CRESWELL.

EXHIBIT No. 730

[From files of The Association of Life Insurance Presidents]

[Notation: New Hampshire. H. B. 125.]

[Copy]

THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS
Number 165 Broadway, New York

VINCENT P. WHITSITT, *Manager and General Counsel*

BRUCE E. SHEPHERD, *Actuary*
HOBART S. WEAVER, *Attorney*
CHARLES F. CRESWELL, *Statistician*

FRANK DEF. ROSS, *Associate Attorney*
MOTT A. BROOKS, *Assistant Secretary*
ROBERT B. CRANE, *Assistant Secretary*

FEBRUARY 28, 1935.

Dear Mr. ———: Major Robert P. Burroughs, Special Agent at Manchester, New Hampshire, of the National Life Insurance Company of Vermont, who is active in the opposition to this measure, has suggested that we request the actuaries of several companies to write to him with respect to the actuarial defects of a proposal of this nature. He has particularly in mind that any life insurance originating from such a small geographical area could not place the usual reliance in mortality averages with the result that any local epidemic might be disastrous. He believes that letters from actuaries along this line, as well as pointing out any other actuarial unsoundness, will prove of material help in presenting opposition to the measure.

The pending proposal follows closely the Massachusetts law on this subject, containing the same objectionable features. One of the differences is that a provision in the Massachusetts statutes with respect to reimbursing the state for sums expended in behalf of the savings bank life insurance division does not appear in the New Hampshire bill. There are also certain differences with respect to administration, and others due to the effort to conform the general phraseology of the Massachusetts law to the New Hampshire situation.

For your information, I am enclosing a copy of the bill and a copy of our short form memorandum of arguments which we have prepared against the enactment of this measure. This attempts to cover the high points of its objectionable features. We also have prepared and forwarded to several insurance men in New Hampshire a more lengthy and detailed memorandum along the same line, as well as other material, but I shall not burden you with any of this.

As there may be a hearing on the measure as early as Tuesday, March 5th, it would be helpful if you could write such a letter to reach Major Burroughs on or before that date. He suggests that letters addressed to him begin something as

follows: "In answer to your request,". We would be glad to have a copy of any letter sent him.

Assuring you that any assistance in connection with this matter will be greatly appreciated, I am

Sincerely yours,

CFC NH
Encl.

_____, *Statistician.*

EXHIBIT No. 731

[From files of The Association of Life Insurance Presidents]

REASONS WHY NEW HAMPSHIRE HOUSE BILL NO. 125, TO PERMIT SAVINGS BANKS TO ENGAGE IN THE LIFE INSURANCE BUSINESS, SHOULD NOT BE ENACTED

The performance of the life-insurance companies of America and its savings banks during the severe tests of the past few years have demonstrated that they are, in fact, financial bulwarks of the nation. The growth of life insurance in America and the development of the Country's savings banks have fully kept pace with the nation's progress; both institutions have a record of economic benefit to their patrons, and both have proven their merit in times of financial stress. Any proposal for the assumption by one of these institutions of the other's functions should, therefore, be examined carefully.

If it is felt advisable for savings banks to embark upon the life-insurance business, the life-insurance companies could have no objection provided the legislation authorizing this required the business to be conducted by the savings banks upon an equal footing with the life-insurance companies, subjecting such banks to the same burdens, restrictions, and requirements under the insurance laws. This, however, is not what this bill provides.

It provides, in effect, for a form of state subsidy in that by Section 15 of the bill the State Actuary, whose office would be created thereunder, is authorized to draft policy forms and application forms, prepare tables of rates and tables of loan and surrender values, and to adopt, if desired, a special table of mortality for the class of risks for this business. The bill also provides that the State Actuary may furnish actuarial service and advice to these so-called savings and insurance banks free of charge.

In addition, to this form of state subsidy, a substantial differential in taxation is provided for, as between "the insurance departments" of the savings banks and the life-insurance companies. By Section 24 of the bill, it is provided that the insurance departments in savings banks are not to be liable for any taxes or fees provided to be assessed upon life-insurance companies, and are to be subject merely to the taxes now payable on deposits held by the savings departments of such banks, namely, twelve twenty-fourths of one per cent on the surplus and reserves resulting from the insurance business after deducting therefrom the value of real estate held; mortgage loans on New Hampshire real estate, investments in Federal farm land and New Hampshire state and municipal bonds, bearing less than five per cent interest; and up to five per cent of the surplus and reserves if invested in certain commercial paper or stock of New Hampshire national banks. This means that the policyholders in life-insurance companies, which are taxed for state purposes, would be required, in effect, to contribute to a portion of the expenses incident to the maintaining of the insurance departments in the savings banks, whose policyholders would not be subject to the same taxation.

In addition to this, the bill provides for inequality under the insurance laws. The savings banks would be permitted to set up "insurance departments" with a minimum capital requirement of \$25,000—\$5,000 as an expense guaranty fund and \$20,000 as an insurance guaranty fund—whereas the minimum requirement for the organization of a legal reserve life insurance company is much higher—for a stock company \$200,000, and for a mutual company \$100,000, deposited with the Insurance Commissioner, with first premiums paid on \$500,000 of life insurance on 500 lives. The resources of the savings bank would not be back of the policies which it issued, and this would constitute an unfair and misleading competitive situation. For example, a savings bank which had been in business for many years and had accumulated \$2,000,000 of deposits could, if this bill becomes law, advertise that it proposed to go into the insurance business, to set up an "insurance department" and to issue policies. The average citizen reading this advertisement would be led to believe that the assets and resources of the

savings banks stood behind these policies, which would not be the case. In fact, the contrary is the truth, since Section 8 provides that the assets of the savings bank shall be liable for the payment of the savings department obligations *only*.

The bill provides for the setting up of a hybrid institution. The insurance department of the savings bank would, by Section 6, be granted all the rights, powers, and privileges and be subject to the burdens, regulations and restrictions under the insurance law "so far as the same are applicable and except as is otherwise provided herein." These insurance departments of savings banks are, on the other hand, by the bill, to be managed as savings banks are managed under the general laws relating to savings banks. This would result in a bank for tax advantage, a bank for free home office service from the appointed State Actuary, a bank for advertising to attract prospective purchasers, and a life-insurance company to reject applicants, a bank for choice of investments and, finally, supervision jointly by the Insurance Commissioner and the Bank Commissioner.

Measures of this type are often urged on the theory that they would provide insurance at a lower net cost in small amounts than is now available from the ordinary life insurance company, and it has been stated that life insurance would be available from these so-called savings and insurance banks at 25% or more, lower net cost. Turning to the only system of savings bank life insurance which is available as a precedent, namely, that in Massachusetts, it is found that the net cost of the insurance is substantially affected by the state subsidy and the differential in taxation. Examination of the appropriation bills which have been passed in that state since 1907, when the system was set up in that state, discloses that for every policy now in force under the plan there, or which has matured as a death claim or as a matured endowment, the cost to the State of Massachusetts has been between \$5 and \$6 per policy.

Furthermore, there has been no effective means provided in Massachusetts for the segregation of the expense as between the savings bank itself and the insurance department of the savings bank. From time to time this has been the subject of reports made to the Legislature of Massachusetts. From these it appears that for one bank in Boston, which, at the end of 1933, had in force \$3,400,000 of insurance, there had been apportioned for that year to its insurance department \$900 for rent and \$12 for salaries paid. Another bank in Cambridge, which had done enough life-insurance business to have accumulated \$208,000 of assets in its insurance department, had charged that department nothing for rent and nothing for salaries. Another bank in Lowell, which had \$1,250,000 of insurance in force at the end of 1933, had charged its insurance department nothing for rent and \$237 for salaries. The "Report of the Special Commission for Investigation and Study of the Banking Structure," dated January 1934, submitted to the Legislature in Massachusetts, Senate No. 100, says at page 54 under the heading "Expenses of Insurance Departments of Savings Banks" with reference to this lack of effective means of apportionment of expense as between the savings bank and its insurance department:

"The result has been that some life insurance departments connected with savings banks have been charged nothing for rent, and, in some instances, little or nothing for clerical hire or management. It is believed that the interest of the public requires that the expenses of the life insurance departments in our various savings banks should be uniformly maintained and segregated from the general expenses of the savings bank itself so that the cost of such insurance may be fairly computed
* * *."

It is also stated in urging measures of this type that this over-the-counter insurance will result in large savings due to the absence of the agency system and agency commissions. Life-insurance agents are performing a valuable economic service which does not cease with the procurement of new business, and it would be unfair to these agents to require them to compete on an unequal basis with a state-subsidized business. Moreover, the plan in Massachusetts has *not* operated without the benefit of soliciting agents. While the banks are not permitted under the Massachusetts law to employ agents, it has developed that private parties, interested in the operation of the plan, have employed and paid the salaries of what are known as "educators." These "educators" go to industrial establishments and business offices and are permitted to give lectures concerning the advantages of the plan and to do everything except actually take the applications for insurance, yet, they are not subject to the jurisdiction of the state insurance department.

In conclusion, it is submitted that there is no widespread public demand for legislation of this character. It has not greatly been taken advantage of in Massachusetts. At the end of 1933 there were in force about 103,000 policies

of these savings and insurance banks, whereas the total population of the state, according to the last census was 4,250,000. Furthermore, the development of the business there has not been in the direction of making the insurance available to persons who can only afford the smaller amounts of insurance. The average policy in force with the savings and insurance banks in Massachusetts is around \$910, which is near the limit, as the Massachusetts law limits the total amount of a policy issued to one person by a bank to \$1,000. It, therefore, appears that the development of the business has been along the line of making the insurance available to persons who can afford the larger amounts.

The savings banks and the life insurance companies are two great institutions which have stood well the tests of the last few years. Both are engaged in highly important businesses, namely, the encouragement of thrift and the provision of means of support for dependent widows and orphans of life-insurance policyholders and savings-bank depositors. Both institutions command respect from the people. Both have their own important part to play in the life of the state. It is to the advantage of the community that they should preserve their individuality as separate institutions of thrift without assuming one another's functions.

EXHIBIT No. 732

[From files of The Association of Life Insurance Presidents]

[Notation: Connecticut. S. B. 239.]

[Initialed: R. Bacon. V. P. W. B. E. L. K.]

[Company seal]

Organized 1851

PHOENIX MUTUAL LIFE INSURANCE COMPANY

Hartford, Connecticut

ARTHUR M. COLLINS, *President*

ALBERT H. YOST, *Vice President and Counsel*

Legal Department: Benjamin L. Holland, Associate Counsel; Lyndes B. Stone, Attorney

APRIL 28, 1937,

(Stamped) Rec'd 1937 Apr.-29-AM 8:46.

Mr. VINCENT P. WHITSITT,

*Manager and General Counsel, Association of Life Insurance Presidents,
New York, New York.*

DEAR VINCENT: Thank you very much for the material that accompanied your letter of April 26 with reference to the savings bank life-insurance legislation pending in the General Assembly here. I hope to be able to use it with good effect.

The companies have finally waked up to the fact that the bill might possibly slip through the legislature. We all met yesterday in Mr. BroSmith's office and outlined a plan of campaign which will be directed particularly at the banking committee of the House. The situation here in Connecticut this year is that the Senate is Democratic and inclined to be radical; the House is Republican and of a more conservative complexion.

So far as I can find out, this bill, which is a Senate bill, is likely to be reported favorably and passed by the Senate.

It so happens that one of our own agents is a member of the House banking committee. He told me yesterday over the phone that, while he had made no canvass of the membership of the House committee, from casual conversations he had had with some of the members he was of the opinion that the bill will not be recommended favorably by the House committee. The Chairman of the Committee he told me is open to argument, and we are going to concentrate most of our efforts right there.

Because of these later developments I am a little more optimistic now of being able to defeat the bill than I was after the hearing last week when none of the companies raised any protest against the passage of the bill. The suggestions that you made to me last week and the information that you have sent will, I know, be very helpful.

Yours very truly,

(Signed) A. H. Yost,
Vice President.

AHY:C.

[Letter head of Phoenix Mutual Life Insurance Company]

MAY 19, 1937,
(Stamped) Rec'd 1937 May-20-AM 8:47.

Mr. VINCENT P. WHITSITT,
Manager and General Counsel, Association of Life Insurance Presidents,
 165 Broadway, New York, New York.

DEAR MR. WHITSITT: Roger B. Hull called me up the other day to find out the present status of the savings bank insurance bill in the Connecticut legislature. I suspect that he probably found out from you that I had some connection with the opposition to the bill, and it occurred to me that perhaps you would be interested to know what the situation is at the present time if you have not already heard.

The opposition, as I probably have told you, has been organized since the first hearing and the committee, headed by Berkeley Cox, whose other members are Allan BroSmith and John Thompson, General Agent of the Connecticut Mutual, has been working on the matter. They have particularly seen to it that somebody has gotten in touch with the key members of the Senate and House committees. The net result has been that the Senate committee has reported the bill favorably, as we expected they would, but we have found out that some of the Democratic members of the committee, particularly those from Hartford, are not entirely favorable to the bill, and there is a slight chance that it may not even pass the Senate.

The House committee has reported unfavorably, and presumably since the House is largely Republican, while the Senate is predominantly Democratic, the probabilities are that the House will kill the bill.

However, even in the House, there is a division between old-line conservatives and the younger Republicans. There is no definite leadership apparently which has control of the situation, and almost anything can happen at any time in either the House or the Senate.

We have done about all that can be done, and as nearly as we can tell the bill is likely to fall between the two houses and to fail of enactment in the House.

Of course, if it does, we shall hear from it again two years from now, but sufficient unto the day is the evil thereof. If and when that time comes, we will probably be in a better position to oppose the legislation because of the experience we have had this year.

Yours very truly,

(Signed) A. H. YOST, *Vice President.*

*AHY:C.

EXHIBIT No. 733

[From files of The Life Underwriters Association of the City of New York, Inc.]

Organized 1886

[Company seal]

Incorporated 1896

THE LIFE UNDERWRITERS' ASSOCIATION OF THE CITY OF NEW YORK, INC.

Executive Office, Hotel Pennsylvania, Seventh Ave. at Thirty Third St., New York

ARTHUR V. YOUNGMAN, *President*
 HARRIS L. WOFFORD, *Vice-President*
 DIEDERICH H. WARD, *Vice-President*
 ROBERT B. SKILLINGS, *Vice-President*

LOUIS A. CERF, JR., *Secretary-Treasurer*
 LLOYD PATTERSON, *Chairman of the Executive Committee*
 ELLES M. DERBY, *Executive Manager*
 DENIS B. MADURO, *Counsel*

FEBRUARY 25, 1938.

DON'T THROW THIS ASIDE. READ IT ALL AND ACT. N-O-W

YOUR FUTURE IS AT STAKE!!

Here is the story on the Savings Bank Life Insurance Bill:

1. We have submitted to the Governor and all Legislators our February 7th Resolution, which was very favorably received.
2. We have submitted our specific amendments to the bill, which to date have not been seriously considered.
3. We are now told that the bill is on its way to passage in its original form.
4. We therefore urge you immediately to bring all forces to bear to the end that the original bill be rejected.

By Monday morning—

your Legislators, both Senators and Assemblymen, should have on their desks in Albany, telegrams from you, your associates, your examiners, etc., protesting the passage of the Livingston-Piper Bill on Savings Bank Life Insurance.

IF YOU DON'T SEND IT NOW YOUR PROTEST WILL BE WORTHLESS

DROP EVERYTHING TO DO THIS!!!

Sincerely,

THE COMMITTEE ON LAW AND LEGISLATION.

EXHIBIT No. 734

[From files of The Life Underwriters Association of the City of New York, Inc.]

FLASH

Word from Albany indicates pressure from New York and vicinity against savings bank life-insurance bill is still not strong enough. Please have all your agents wire again making sure every Senator and Assemblyman gets at least one telegram from your office regardless of constituency.

They are weakening.

Keep up the good work.

Suggestions enclosed.

THE COMMITTEE ON LAW & LEGISLATION,
LIFE UNDERWRITERS' ASSOCIATION.

SUGGESTIONS FOR LETTERS OR TELEGRAMS

1. Confine Savings Bank Life Insurance plan to one thousand limit per person.
2. Savings Bank Life Insurance idea suggested as alternative to "industrial" life insurance should be confined to poorer classes and not offer a bargain opportunity to purchasers of such insurance in unlimited amount.
3. Keep Savings Banks for savings and life insurance companies for life insurance.
4. At a time when title, mortgage, banking and insurance companies are being dissociated from one another, it is a mistake to endanger institutions of life insurance and mutual savings banks by seeking to combine the two.
5. Thousands of life-insurance agents of this State will lose their means of earning a living unless the one thousand limit per person is placed in Savings Bank Life Insurance bill. Please use your efforts to protect life-insurance agents who are your constituents.
6. Social character of Savings Bank Life Insurance legislation will be defeated unless amended with certain safeguards particularly those which will confine the plan to its original purpose of serving the poor.
7. Am opposed to Savings Bank Life Insurance in any form. It will not correct industrial life-insurance evils but merely substitutes one evil for another.
8. Savings Bank Life Insurance in present form will help large buyers and not poor buyers as planned. Please vote to amend measure.
9. Sixty-one thousand four hundred and twenty-two licenses issued in this State to "nonindustrial" life insurance salesmen whose livelihood will be seriously threatened if Savings Banks are permitted to write life insurance in needless competition.
10. Well satisfied with present legal reserve life insurance.
11. Savings Bank Life Insurance is no solution to poor man's problem.
12. Savings Banks Life Insurance is a misnomer. It misleads and confuses the public as to which is which.
13. The plan to put the Savings Banks into the Life Insurance business is not a social measure; it is social hysteria. Don't be influenced by it.
14. Am opposed to authorizing Savings Banks or any other institution to go into the life-insurance business. Legal reserve life-insurance companies, properly supervised, are the only medium for the sale of Life Insurance.
15. The movement to put unwilling Savings Banks into the Life Insurance business is based on good intentions but unsound and immature concepts. I am strongly opposed to it.
16. To put savings banks into Life Insurance business is definitely an antisocial move, however worthy the intention. It will throw the public into confusion and weaken public confidence both in Banks and in Life Insurance.

EXHIBIT No. 736

[Prepared by Massachusetts State actuary, Eugene F. Caldwell]

Massachusetts Savings Banks Issuing Life Insurance Listed in the Order of Their Entrance into the System (and the General Insurance Guaranty Fund), October 31, 1938

Bank	Date of Entry	No. of Pol. in Force ¹	Amt. of Ins. in Force	Admitted Assets of Ins. Dept.	Assets of Savings Dept.
Whitman S. B.	6/22/08	20,682	\$19,977,265	\$4,582,359.87	\$7,011,516.63
People's S. B., Brockton	11/2/08	12,001	13,196,141	3,053,142.35	10,076,065.93
Berkshire County Sav. Bk., Pittsfield	8/1/11	8,950	11,756,930	2,284,591.13	17,295,509.61
City Sav. Bk. of Pittsfield	7/15/12	7,410	9,085,309	1,827,258.30	10,727,457.98
Lynn Five Cents S. B.	11/1/22	11,681	11,527,992	2,222,315.70	21,985,771.01
Lynn Inst. for Savings	11/1/22	11,610	11,077,847	2,397,045.23	36,698,301.96
North Adams S. B.	2/29/24	3,717	3,636,690	701,882.34	7,101,656.63
Cambridgeport S. B., Cambridge	11/1/24	10,466	10,255,062	1,960,491.86	24,084,121.83
Massachusetts S. B., Boston	11/1/25	7,181	6,939,007	1,432,662.36	8,493,662.37
Waltham Sav. Bk.	11/1/25	7,542	5,406,413	1,105,377.31	11,750,141.20
Lowell Inst. for Savings	11/1/29	2,987	2,710,013	457,629.86	9,947,027.14
The Boston Five Cents S. B.	11/1/29	14,937	13,392,734	2,084,822.88	137,593,457.78
Grove Hall S. B., Boston	11/1/29	2,986	2,906,204	392,963.57	5,719,003.76
Cambridge S. B.	3/1/30	4,132	4,006,627	873,006.73	40,744,287.68
New Bedford Inst. for Savings	7/15/30	3,473	3,511,076	524,870.29	38,561,160.03
Arlington Five Cents S. B.	11/1/30	3,386	3,267,032	396,569.44	14,456,116.19
Uxbridge Sav. Bk.	3/10/31	2,794	2,495,404	215,833.93	4,042,660.58
Wildley S. B., Boston	4/14/31	5,675	6,924,476	733,103.13	19,481,219.47
Beverly Sav. Bk.	6/1/31	3,730	3,322,533	464,949.80	11,026,420.20
Leominster Sav. Bk.	6/1/31	2,693	2,567,187	235,054.76	7,702,683.02
Fall River Five Cents S. B.	11/1/31	2,874	2,611,262	256,181.17	12,893,540.86
Canton Inst. for Sav.	11/1/34	1,067	1,107,413	95,678.80	2,518,362.04
Plymouth Five Cents S. B.	11/1/34	1,454	1,283,673	155,529.48	5,740,527.09
Newton Sav. Bk.	3/1/37	2,094	1,824,066	129,301.78	20,957,867.92
General Insurance Guar. Fund				198,245.17	
Total		155,431	154,788,376	28,870,867.24	486,608,538.91

¹ These figures include Group Insurance as 60 policies but they cover 16,573 people.
6/13/39. E. F. C.

EXHIBIT No. 737

[Prepared by Massachusetts State actuary, Eugene F. Caldwell]

Growth of Savings Bank Life Insurance in Massachusetts 1908 to 1938

Year	Number of Issuing Banks	Insurance Premiums	Annuity Premiums	Total Premium Income	Insurance in Force	Admitted Assets
1908	1	\$368.21		\$368.21	\$114,953	\$26,048.91 ¹
1909	2	25,377.29		25,377.29	992,761	82,137.17
1910	2	58,890.68		58,890.68	1,367,363	130,516.97
1911	3	76,348.92		76,348.92	1,956,038	223,130.83
1912	4	102,832.27		102,832.27	2,528,809	331,726.51
1913	4	124,205.08		124,205.08	3,150,806	430,428.89
1914	4	139,757.35		139,757.35	3,566,778	542,900.68
1915	4	164,058.96		164,058.96	4,341,205	666,750.00
1916	4	212,885.24		212,885.24	6,041,754	779,311.68
1917	4	261,562.27	(1)	261,562.27	8,139,269	990,844.55
1918	4	317,475.73		317,475.73	9,783,239	1,202,932.52
1919	4	352,104.12		352,104.12	12,373,090	1,418,530.52
1920	4	424,901.24		424,901.24	15,050,271	1,702,141.84
1921	4	463,792.59		463,792.59	16,670,103	2,000,393.19
1922	4	553,006.99		553,006.99	19,872,634	2,348,945.70
1923	6	714,773.56		714,773.56	25,677,730	2,834,089.67
1924	7	898,747.79		898,747.79	31,758,583	3,447,488.36
1925	8	1,073,347.23	74,919.84	1,148,267.07	38,105,250	4,246,820.39
1926	10	1,257,788.67	107,937.63	1,365,726.35	43,293,256	5,161,388.06
1927	10	1,421,384.83	162,361.42	1,583,746.25	49,171,745	6,221,049.09
1928	10	1,644,121.94	255,054.63	1,899,176.57	57,836,763	7,579,708.72
1929	10	1,946,490.80	422,685.54	2,369,176.34	67,588,398	9,074,805.35
1930	15	2,222,001.35	422,731.96	2,644,733.31	77,324,800	10,566,034.39
1931	20	2,531,914.82	563,356.61	3,095,271.43	90,960,522	12,313,623.34
1932	21	2,674,957.07	304,624.07	2,979,581.14	90,606,283	13,681,358.92
1933	21	2,645,979.81	611,030.56	3,256,410.37	93,186,080	15,171,273.58
1934	21	2,803,800.92	1,271,974.40	4,075,775.32	99,960,943	17,634,808.59
1935	23	3,041,489.38	1,259,334.09	4,300,823.47	109,645,965	20,181,423.34
1936	23	3,350,551.67	1,336,166.84	4,686,718.51	122,374,772	23,066,679.30
1937	24	3,684,097.61	1,329,596.83	5,013,694.44	139,706,498	26,123,367.12
1938	24	4,052,140.85	734,982.65	4,787,123.50	154,788,376	28,870,867.24

¹ Annuity Premiums included with Insurance premium income prior to 1925.
6/13/39. E. F. C.

EXHIBIT No. 738

[Prepared by Massachusetts State actuary, Eugene F. Caldwell]

Number and Types of Agencies for Savings Bank Life Insurance on June 13, 1939

County	Total in each county	Issuing Banks or their Branches	Agency Banks or their Branches	Public Agencies	Employer Agencies	Credit Unions
Berkshire.....	29	3	2		24	
Franklin.....	11		4		7	
Hampshire.....	13		8		6	
Hampden.....	48		12		25	11
Worcester.....	71	3	12		49	7
Middlesex.....	125	8	48	1	61	7
Norfolk.....	36	1	20		12	3
Plymouth.....	33	4	9		17	3
Bristol.....	23	5	2	1	9	6
Essex.....	50	5	16	1	25	3
Suffolk.....	72	7	20	2	33	10
Barnstable.....	6		6			
Duke's.....						
Nantucket.....						
Total.....	517	36	159	5	267	60

6/13/39. E. F. C.

EXHIBIT No. 739

[Prepared by Massachusetts State actuary, Eugene F. Caldwell]

Savings Bank Life Insurance (as of Aug. 31, 1938), Showing Number of Persons Insured for the Several Stated Amounts

Class	Amount Group	Number of Persons	Percent- age of Total	Cumu- lative Total %	Class	Amount Group	Number of Persons	Percent- age of Total	Cumu- lative Total %
1.....	\$500	22,026	26.79	26.79	26.....	13,000	94	.12	99.12
2.....	1,000	40,797	49.62	76.41	27.....	14,000	68	.09	99.21
3.....	1,500	1,221	1.49	77.90	28.....	14,500	3	.00	99.21
4.....	2,000	6,585	8.01	85.91	29.....	15,000	198	.24	99.45
5.....	2,500	532	.65	86.56	30.....	15,500	2	.00	99.45
6.....	3,000	3,342	4.06	90.62	31.....	16,000	50	.06	99.51
7.....	3,500	89	.11	90.73	32.....	16,500	4	.00	99.51
8.....	4,000	1,162	1.41	92.14	33.....	17,000	27	.03	99.54
9.....	4,500	61	.08	92.22	34.....	17,500	1	.00	99.54
10.....	5,000	2,718	3.31	95.53	35.....	18,000	20	.02	99.56
11.....	5,500	29	.04	95.57	36.....	18,500	1	.00	99.56
12.....	6,000	587	.71	96.28	37.....	19,000	10	.01	99.57
13.....	6,500	14	.02	96.30	38.....	19,500	1	.00	99.57
14.....	7,000	299	.36	96.66	39.....	20,000	143	.17	99.74
15.....	7,500	45	.06	96.72	40.....	20,500	1	.00	99.74
16.....	8,000	265	.32	97.04	41.....	21,000	66	.08	99.82
17.....	8,500	11	.01	97.05	42.....	21,500	2	.00	99.82
18.....	9,000	116	.14	97.19	43.....	22,000	10	.01	99.83
19.....	9,500	6	.01	97.20	44.....	22,500	3	.00	99.83
20.....	10,000	1,321	1.61	98.81	45.....	23,000	64	.08	99.91
21.....	10,500	5	.01	98.82	46.....	23,500	1	.00	99.91
22.....	11,000	56	.07	98.89	47.....	24,000	73	.09	100.00
23.....	11,500	4	.00	98.89					
24.....	12,000	82	.10	98.99					
25.....	12,500	6	.01	99.00					
					Total.....		82,221		

EXHIBIT No. 740

[Prepared by Massachusetts State actuary, Eugene F. Caldwell]

Amount of New Insurance Written and Insurance Terminated in Massachusetts during the Year 1938 (Ordinary)

Company	New Issues	Terminations	Gain or Loss for the year
Acacia.....	844, 507	352, 927	491, 580
Aetna.....	5, 336, 413	5, 451, 517	115, 104
Bankers National.....	1, 389, 927	914, 411	475, 516
Berkshire.....	1, 947, 069	1, 911, 507	35, 562
Boston Mutual.....	4, 493, 413	3, 342, 948	1, 150, 465
Columbian National.....	3, 119, 525	2, 888, 406	231, 120
Conn. General.....	5, 350, 388	4, 801, 120	549, 268
Conn. Mutual.....	4, 815, 119	4, 311, 030	504, 089
Continental American.....	907, 332	135, 624	771, 708
Equitable—New York.....	9, 783, 758	11, 890, 412	2, 106, 654
Equitable—Iowa.....	440, 672	349, 676	90, 996
Expressmen's.....	62, 000	6, 914	55, 086
Farmers & Traders.....	352, 049	151, 864	200, 185
Fidelity.....	1, 378, 472	1, 161, 607	216, 865
Guardian.....	865, 026	597, 519	267, 507
Home.....	2, 112, 111	1, 060, 068	1, 052, 043
John Hancock.....	37, 178, 919	30, 447, 927	6, 730, 992
Lincoln National.....	2, 551, 198	807, 580	1, 743, 618
Loyal Protective.....	34, 050	19, 800	14, 250
Mass. Mutual.....	9, 793, 287	10, 708, 923	915, 636
Mass. Protective.....	85, 040	92, 436	7, 396
Metropolitan.....	69, 752, 730	66, 824, 140	2, 928, 590
Ministers Mutual.....	20, 600	18, 790	1, 810
Monarch.....	456, 315	192, 708	263, 607
Morris Plan.....	1, 000	1, 000	-----
Mutual Life.....	6, 837, 764	5, 384, 680	1, 453, 184
Mutual Benefit.....	4, 163, 676	5, 026, 703	863, 027
Mutual Trust.....	1, 547, 706	1, 301, 284	246, 422
National.....	2, 084, 386	2, 909, 357	824, 971
New England.....	20, 673, 074	15, 381, 015	5, 292, 059
New York Life.....	11, 127, 074	13, 834, 603	2, 707, 529
No. Amer. Reass.....	293, 200	129, 800	163, 400
Northwestern Mutual.....	3, 773, 984	4, 182, 738	408, 754
Paul Revere.....	114, 469	73, 921	40, 548
Penn Mutual.....	1, 827, 235	2, 415, 374	588, 139
Phoenix Mutual.....	7, 084, 787	5, 901, 103	1, 183, 684
Provident Mutual.....	2, 788, 855	3, 509, 504	720, 649
Prudential.....	25, 165, 373	24, 506, 234	659, 139
Savings Banks ¹	20, 000, 167	4, 005, 253	15, 994, 914
Security Mutual.....	462, 498	569, 361	106, 865
Shenandoah.....	34, 606	21, 735	12, 871
State Mutual.....	7, 608, 356	6, 419, 132	1, 189, 224
Sun Life—Transferred in.....	878, 719	812, 414	66, 305
Travelers.....	3, 424, 359	4, 220, 957	795, 293
Union Central.....	6, 268, 778	5, 590, 864	677, 914
Union Labor.....	2, 824, 012	2, 920, 864	96, 852
Union Mutual.....	106, 865	53, 842	53, 023
United Life & Accident.....	707, 811	699, 368	8, 443
United Life & Accident.....	903, 331	433, 657	469, 674
Totals.....	293, 772, 006	258, 744, 517	35, 027, 489

¹ Year ends October 31.² Transferred out.

ORDINARY

Only 4 companies wrote more insurance in Massachusetts in 1938 than did the Savings Banks.

No company gained as much insurance in force in Massachusetts in 1938 as did the Savings Banks.

The Savings Banks accounted for 6.81% of the total new issues.

The Savings Banks accounted for 45.66% of the total net increase in insurance in force.

6-13-39. E. F. C.

EXHIBIT No. 741

[Prepared by Massachusetts State actuary, Eugene F. Caldwell]

Relative Proportions of Amounts of Insurance Terminated by Lapse and Surrender in Massachusetts Savings Banks and in Massachusetts Insurance Companies 1911-1938

Years	S. B. L. I.		Other Massachusetts Companies ¹			
	Lapse	Surrender	Ordinary		Industrial	
			Lapse	Surrender	Lapse	Surrender
	Percent	Percent	Percent	Percent	Percent	Percent
1911.....	46	54	55	35	88	12
1912.....	40	60	62	38	84	16
1913.....	29	71	64	36	83	17
1914.....	25	75	60	40	79	21
1915.....	19	81	58	42	80	20
1916.....	37	63	57	43	85	15
1917.....	31	69	60	40	83	17
1918.....	32	68	63	37	75	25
1919.....	13	87	64	36	73	27
1920.....	25	75	71	29	76	24
1921.....	19	81	74	26	77	23
1922.....	29	71	64	36	74	26
1923.....	28	72	60	40	76	24
1924.....	28	72	61	39	77	23
1925.....	18	82	58	42	76	24
1926.....	15	85	58	42	78	22
1927.....	7	93	58	42	80	20
1928.....	10	90	53	47	78	22
1929.....	12	88	50	50	80	20
1930.....	9	91	53	47	77	23
1931.....	8	92	46	54	74	26
1932.....	7	93	38	62	71	29
1933.....	6	94	36	64	72	28
1934.....	8	92	37	63	71	29
1935.....	10	90	43	57	72	28
1936.....	8	92	48	52	73	27
1937.....	11	89	54	46	64	36
1938.....	10	90	(²)	(²)	(²)	(²)

¹ S. B. L. I. not included here.² Not available.

6-13-39. E. F. C.

EXHIBIT No. 742

[Prepared by Massachusetts State actuary, Eugene F. Caldwell]

Mortality Experience of Massachusetts Savings Bank Life Insurance Compared with Life Insurance Companies—Ratios of Actual to Expected Mortality Losses for Savings Banks, all Ordinary, and all Industrial Insurance, 1910 to 1938

Year	Savings bank Life Insurance	All Ordinary Ins. incl. S. B. L. I.	All Industrial	Year	Savings Bank Life Insurance	All Ordinary Ins. incl. S. B. L. I.	All Industrial
1910.....	30.84	70.63	104.49	1925.....	44.98	51.51	66.02
1911.....	22.35	70.78	100.17	1926.....	43.24	53.59	68.07
1912.....	24.64	70.57	97.69	1927.....	43.74	53.78	63.88
1913.....	35.42	35.96	98.76	1928.....	36.22	57.91	64.23
1914.....	28.32	66.58	96.52	1929.....	46.85	60.89	66.37
1915.....	34.94	68.35	92.31	1930.....	41.55	61.80	60.04
1916.....	53.05	68.43	95.10	1931.....	39.43	63.48	59.50
1917.....	30.19	63.05	93.96	1932.....	39.85	63.10	55.72
1918.....	77.90	96.69	142.78	1933.....	36.77	63.31	56.25
1919.....	63.57	66.40	83.25	1934.....	41.22	61.73	53.64
1920.....	57.90	60.29	76.13	1935.....	40.06	60.49	50.98
1921.....	32.12	51.88	63.52	1936.....	33.51	61.05	50.06
1922.....	45.38	53.68	65.42	1937.....	35.89	58.95	47.52
1923.....	51.97	55.10	66.69	1938.....	34.20	(¹)	(¹)
1924.....	45.57	53.09	65.21				

¹ Not available.

6/13/39. E. F. C.

EXHIBIT No. 743

[Prepared by Massachusetts State actuary, Eugene F. Caldwell]

INTEREST EARNED

Net Rate of Income Earned on Investments by Savings Bank Life Insurance and by all Insurance Organizations, Including Savings Bank Life Insurance, 1920 to 1938

Year	Savings Bank Life Insurance	All Organizations including S. B. L. I.	Year	Savings Bank Life Insurance	All Organizations including S. B. L. I.
1920.....	5.58	5.03	1930.....	5.14	5.02
1921.....	5.65	5.22	1931.....	5.12	4.91
1922.....	5.62	5.29	1932.....	5.02	4.65
1923.....	5.32	5.34	1933.....	4.67	4.25
1924.....	5.49	5.33	1934.....	4.47	3.89
1925.....	5.21	5.06	1935.....	3.90	3.66
1926.....	5.30	5.06	1936.....	3.81	3.73
1927.....	5.25	5.02	1937.....	3.83	3.88
1928.....	5.18	5.04	1938.....	3.82	(¹)
1929.....	5.39	5.02			

¹ Not available.

6/13/39. E. F. C.

EXHIBIT No. 744

[Prepared by Massachusetts State actuary, Eugene F. Caldwell]

EXPENSE OF OPERATION

Percent Total Expenses are of Premium Income in Savings Bank Life Insurance Ordinary Insurance and Industrial Insurance 1920 to 1938

Year	Savings Bank Life Insurance ¹	All Ordinary	Industrial	Year	Savings Bank Life Insurance ¹	All Ordinary	Industrial
1920.....	6.80	22.72	35.84	1930.....	4.73	17.96	24.45
1921.....	6.84	20.60	34.24	1931.....	4.97	16.19	22.92
1922.....	7.73	19.83	32.33	1932.....	5.13	15.44	22.02
1923.....	6.54	20.20	31.78	1933.....	5.00	14.14	22.77
1924.....	6.10	20.43	30.99	1934.....	4.84	13.95	23.90
1925.....	4.45	19.63	30.91	1935.....	5.02	13.67	24.74
1926.....	4.47	19.40	29.92	1936.....	6.29	13.71	25.53
1927.....	4.55	18.82	27.64	1937.....	7.16	14.13	25.32
1928.....	4.53	18.13	26.30	1938.....	8.39	(¹)	(¹)
1929.....	4.63	18.32	26.34				

¹ Including repayment to the Commonwealth of entire state appropriation for the Division of Savings Bank Life Insurance.

² Not available.

6/13/39. E. F. C.

EXHIBIT No. 745

[From files of Massachusetts Division of Savings Bank Life Insurance]

DIVISION OF SAVINGS BANK LIFE INSURANCE

109 State House, Boston, Mass.

Illustration of 10 years' experience—Issues of 1929

\$1,000 STRAIGHT LIFE INSURANCE—AGE 35

Company	Annual Prem- ium	10 An- nual Prem- iums	10 Years' Divi- dends	Net Pay- ment	Average Net Pay- ment	Cash Value	Net Cost	Average Net Cost
Banks 1 through 10.....	\$23.90	\$239.00	\$75.87	\$163.13	\$16.31	\$135.76	\$27.37	\$2.74
Northwestern Mut.....	26.88	268.80	76.78	192.02	19.20	146.01	46.01	4.60
Provident Mut.....	22.89	228.90	40.29	188.61	18.86	135.00	53.61	5.36
New England Mut.....	27.00	270.00	70.11	199.89	19.99	146.01	53.88	5.39
Penn Mut.....	26.35	263.50	61.63	201.87	20.19	146.01	55.86	5.59
Metropolitan ¹	24.00	240.00	42.46	197.54	19.75	137.00	60.54	6.05
State Mutual.....	26.35	263.50	56.85	206.65	20.67	146.01	60.64	6.06
Mutual Benefit.....	26.35	263.50	56.14	207.36	20.74	146.01	61.35	6.14
Conn. Gen. (Non-Par.).....	19.71	197.10	-----	197.10	19.71	135.00	62.10	6.21
Mass. Mutual.....	26.35	263.50	54.61	208.89	20.89	146.01	62.88	6.29
Equitable (N. Y.).....	28.11	281.10	72.15	208.95	20.90	146.00	62.95	6.30
National (Vt.).....	26.35	263.50	53.75	208.75	20.98	146.01	63.74	6.37
Guardian (N. Y.).....	26.35	263.50	52.95	210.55	21.06	146.01	64.54	6.45
New York Life.....	28.11	281.10	68.56	212.54	21.25	146.00	66.54	6.65
Conn. Mutual.....	26.35	263.50	50.39	213.11	21.31	146.01	67.10	6.71
Phoenix Mutual.....	23.10	231.00	28.01	202.99	20.30	135.76	67.23	6.72
Equitable (Iowa).....	26.38	263.80	60.02	203.78	20.38	136.00	67.78	6.78
Travelers (Non-Par.).....	19.71	197.10	-----	197.10	19.71	128.97	68.13	6.81
Mutual Life (N. Y.).....	28.11	281.10	66.36	214.74	21.47	146.01	68.73	6.87
Prudential ¹	24.21	242.10	35.12	206.98	20.70	137.00	69.98	7.00
Home Life (N. Y.) ¹	26.49	264.90	47.06	217.84	21.78	147.51	70.33	7.03
John Hancock ¹	26.00	260.00	51.30	208.70	20.87	137.00	71.70	7.17
Aetna (Non-Par.).....	19.71	197.10	-----	197.10	19.71	125.00	72.10	7.21
Union Central.....	24.89	248.90	38.35	210.55	21.06	135.00	75.55	7.56
Conn. Gen. (Par.).....	25.49	254.90	44.07	210.83	21.08	135.00	75.83	7.58
Fidelity Mutual ¹	26.00	260.00	46.62	213.38	21.34	137.00	76.38	7.64
Aetna (Par.).....	24.89	248.90	45.39	203.51	20.35	125.00	78.51	7.85
Berkshire Life.....	26.35	263.50	30.19	233.31	23.33	146.01	87.30	8.73

SPECIAL POLICIES ISSUED ONLY IN AMOUNTS OF \$5,000 OR MORE—\$1,000 BASIS

Metropolitan "Special".....	\$21.40	\$214.00	\$35.16	\$178.84	\$17.88	\$135.60	\$43.24	\$4.32
John Hancock "Pref. Risk".....	22.90	229.00	41.39	187.61	18.76	136.00	51.61	5.16
Prudential "Mod. 3":.....								
1st 3 yrs.....	19.02	-----	-----	-----	-----	-----	-----	-----
4th & subs. yrs.....	22.38	213.72	29.08	184.64	18.46	123.00	56.64	5.66
Home Life (N. Y.) (Pref.).....	22.90	229.00	35.48	193.52	19.35	135.76	57.76	5.78

¹ Endowment at age 85.² Whole Life Payable at age 85.

NOTE.—The dividends shown for the Savings Banks equal the average of the ten years' dividends paid on a straight life policy issued at age 35 in 1929 by the ten insurance departments established prior to November 1, 1929. The figures for the companies were taken from sources believed to be reliable.

6/8/39. N-1-35—Actual.

EXHIBIT No. 746

[From files of Massachusetts Division of Savings Bank Life Insurance]

SAVINGS BANK LIFE INSURANCE

109 State House, Boston, Mass.

Ten Year Net Cost Comparison—\$1,000 Straight Life Insurance—Age 35

	Annual Pre- mium	10 An- nual Prem's.	Div. Ret'd 10 Years	Net Am't Pd. In 10 Yrs.	Av. Yearly Net Payts.	Cash Value End 10 Yrs.	Net Cost for 10 Years	Av. Yrly. Net Cost
24 Savings-Ins. Bks.	\$22. 19	\$221. 90	\$48. 69	\$173. 21	\$17. 32	\$146. 01	\$27. 20	\$2. 72
Northwestern Mutual	26. 88	268. 80	70. 84	197. 96	19. 80	146. 01	51. 95	5. 20
Provident Mutual	25. 88	258. 80	56. 44	202. 36	20. 24	146. 00	56. 36	5. 64
National Life (Vt.)	26. 35	263. 50	59. 75	203. 75	20. 38	146. 00	57. 75	5. 78
Penn Mutual (I)	26. 35	263. 50	55. 02	208. 48	20. 85	146. 01	62. 47	6. 25
New England Mutual	27. 00	270. 00	59. 51	210. 49	21. 05	146. 01	64. 48	6. 45
Mutual Benefit	26. 35	263. 50	49. 37	214. 13	21. 41	146. 01	68. 12	6. 81
State Mutual	26. 35	263. 50	49. 35	214. 15	21. 42	146. 01	68. 14	6. 81
Conn. Mutual	26. 35	263. 50	48. 55	214. 95	21. 50	146. 01	68. 94	6. 89
Guardian Life	26. 35	263. 50	47. 13	216. 37	21. 64	146. 01	70. 36	7. 04
Mass. Mutual	26. 35	263. 50	46. 41	217. 09	21. 71	146. 01	71. 08	7. 11
Prudential	25. 58	255. 80	42. 26	213. 64	21. 35	142. 00	71. 54	7. 15
Fidelity Mutual	26. 24	262. 40	44. 84	217. 56	21. 76	146. 00	71. 66	7. 16
John Hancock	26. 06	260. 60	40. 95	219. 65	21. 97	148. 00	71. 65	7. 17
Metropolitan	25. 35	253. 50	47. 11	206. 39	20. 64	132. 00	74. 39	7. 44
Mutual Trust	26. 85	268. 50	48. 16	220. 34	22. 03	146. 01	74. 33	7. 43
Sun Life of Canada	27. 90	279. 00	49. 79	229. 21	22. 92	153. 00	76. 21	7. 62
Union Central	26. 30	263. 00	41. 29	221. 71	22. 17	146. 00	75. 71	7. 57
Equitable Life	26. 35	263. 50	53. 40	210. 10	21. 01	133. 00	77. 10	7. 71
Equitable (N. Y.)	28. 11	281. 10	69. 90	211. 20	21. 12	131. 00	80. 20	8. 02
Phoenix Mutual	24. 58	245. 80	34. 82	210. 98	21. 10	130. 00	80. 98	8. 10
Home Life	26. 49	264. 90	35. 86	229. 04	22. 90	147. 51	81. 53	8. 15
Aetna (Par.)	26. 57	265. 70	52. 86	212. 84	21. 28	131. 00	81. 84	8. 18
Conn. General	25. 53	255. 30	38. 96	216. 34	21. 63	131. 00	85. 34	8. 53
Mutual Life	28. 11	281. 10	64. 07	217. 03	21. 70	131. 41	85. 62	8. 56
New York Life	28. 11	281. 10	62. 44	218. 66	21. 87	131. 00	87. 66	8. 77
Berkshire Life	26. 35	263. 50	26. 63	236. 87	23. 69	146. 01	90. 86	9. 09
Columbian Nat.	21. 42	214. 20	-----	214. 20	21. 42	118. 00	96. 20	9. 62
Travelers	21. 42	214. 20	-----	214. 20	21. 42	111. 26	102. 94	10. 29
Aetna (Non-Par.)	21. 42	214. 20	-----	214. 20	21. 42	111. 00	103. 20	10. 32
Conn. General	21. 42	214. 20	-----	214. 20	21. 42	111. 00	103. 20	10. 32
Security Mutual	(1)	(1)	-----	-----	-----	-----	-----	-----

¹ Not available.

NOTE.—The dividends shown for the Savings Banks are based on the dividend schedule for 1938 for policies issued on the premium rates adopted November 1, 1935. Those for the companies, on dividends payable in 1938 based on information in the Life Insurance Courier, Best's Life Insurance News, and Best's Illustrations.

EXHIBIT No. 747

[Prepared by Massachusetts State actuary, Eugene F. Caldwell]

Comparison of Ratios of Surplus to Reserve of Massachusetts Savings Bank Life Insurance and the Life Insurance Companies (Capital Included as Surplus)

Year	Massachu- setts Savings Bank Life Insurance	All Companies Doing Busi- ness in Massa- chusetts (ex- cluding S. B. L. I.)	Year	Massachu- setts Savings Bank Life Insurance	All Companies Doing Busi- ness in Massa- chusetts (ex- cluding S. B. L. I.)
1920	11. 46	5. 11	1934	8. 69	5. 50
1925	11. 33	7. 92	1935	9. 10	5. 58
1930	9. 51	6. 92	1936	9. 45	5. 82
1931	9. 25	6. 94	1937	8. 85	5. 46
1932	9. 40	6. 30	1938	8. 31	(1)
1933	9. 41	5. 95			

¹ Not available.

6/13/39. E. F. C.

EXHIBIT No. 748

[Prepared by Massachusetts State actuary, Eugene F. Caldwell]

Massachusetts Savings Bank Life Insurance Compared with Total Amount of Life Insurance of All Kinds in Force in Massachusetts, 1908-1938 (December 31st)

Year	Insurance in force		% Savings Bank Life Insurance to Total	Year	Insurance in force		% Savings Bank Life Insurance to Total
	Savings Bank Life Insurance ¹	Total all Kinds			Savings Bank Life Insurance ¹	Total all Kinds	
1908.....	\$114,953	\$800,660,535	0.014	1924.....	\$31,758,583	\$2,967,992,444	1.070
1909.....	992,761	850,842,393	0.117	1925.....	38,105,250	3,310,821,143	1.151
1910.....	1,367,363	894,542,543	0.153	1926.....	43,293,286	3,607,430,429	1.200
1911.....	1,956,038	944,253,553	0.207	1927.....	49,171,745	3,873,181,359	1.270
1912.....	2,528,809	997,464,458	0.254	1928.....	57,836,763	4,159,872,349	1.390
1913.....	3,150,806	1,052,847,286	0.299	1929.....	67,588,398	4,491,346,282	1.505
1914.....	3,566,778	1,102,006,727	0.324	1930.....	77,324,800	4,690,758,341	1.648
1915.....	4,341,205	1,160,188,542	0.374	1931.....	90,960,522	4,816,053,305	1.889
1916.....	6,041,754	1,259,939,404	0.480	1932.....	90,606,283	4,641,492,735	1.952
1917.....	8,139,269	1,367,149,096	0.595	1933.....	83,186,980	4,513,255,113	2.065
1918.....	9,783,239	1,472,302,996	0.664	1934.....	89,960,943	4,515,409,346	2.214
1919.....	12,373,090	1,747,511,513	0.708	1935.....	109,645,965	4,559,313,606	2.405
1920.....	15,050,271	2,026,748,823	0.743	1936.....	122,374,772	4,693,157,546	2.608
1921.....	16,670,103	2,196,175,148	0.759	1937.....	139,706,498	4,858,280,689	2.876
1922.....	19,872,634	2,393,859,663	0.830	1938.....	154,788,376	4,894,293,359	3.163
1923.....	25,677,730	2,700,383,558	0.951				

¹ Savings Bank Life Insurance figures as of October 31st.

6/13/39. E. F. C.

EXHIBIT No. 749

[Publication of Massachusetts Division of Savings Bank Life Insurance]

Thirty Years' Experience in Massachusetts Savings Bank Life Insurance (Statement to October 31, 1938)

INCOME DURING THIRTY YEARS		ASSETS	
Premiums from Policyholders.....	\$48,097,312.36	Bonds.....	\$14,651,009.11
Net Income from Investments.....	8,412,094.83	First Mortgage Loans on Massachusetts Real Estate.....	7,936,024.17
Special Guaranty Funds.....	200,000.00	Policy Loans.....	2,807,762.43
Total Income.....	\$56,709,407.19	Real Estate Acquired by Foreclosure Bank Stocks.....	478,303.82
		Collateral Loans.....	228,253.30
DISBURSEMENTS DURING THIRTY YEARS		Taxes and Insurance Paid on Mortgaged Property.....	26,378.93
Death and Disability Claims.....	\$5,994,991.58	Personal Security Loans.....	7,685.00
Matured Endowments.....	1,807,856.35	Cash on Hand and in Banks.....	1,045,145.65
Payments to Annuitants.....	3,536,845.36	Other Ledger Assets.....	962.39
Cash Surrender Values.....	3,896,971.63	Total Ledger Assets.....	\$27,842,327.54
Dividends to Policyholders.....	10,240,561.93	Interest and Rents due and accrued.....	\$229,298.28
(Total Pd. Policyholders \$25,486,226.85).		Premiums in Course of Collection.....	754,382.06
Special Guaranty Funds Retired.....	195,000.00	Unification of Mortality.....	47,265.35
Expenses (see detail below).....	3,185,852.80	Other Non-Ledger Assets.....	112.45
Total Disbursements.....	\$28,867,079.65	Total Gross Assets.....	\$28,873,385.68
Income Over Disbursements.....	\$27,842,327.54	Assets Not Admitted.....	\$2,518.44
		Total Admitted Assets.....	\$28,870,867.24
EXPENSES DURING THIRTY YEARS		LIABILITIES	
Salaries.....	\$1,221,436.12	Legal Reserve.....	\$25,069,137.00
Adv., Postage, Printing, Tel. and Express.....	367,095.89	Policy Proceeds left with the Banks.....	234,960.00
Medical Fees.....	323,201.47	Reserve for Unpaid Claims.....	38,191.48
Taxes.....	301,337.43	Dividends left to Accumulate.....	135,519.88
Collection Fees.....	263,868.51	Premiums Paid in Advance.....	36,256.55
Rent.....	218,962.63	Interest and Rent Paid in Advance.....	70,624.96
Reimbursement to State.....	328,425.68	Reserve for Taxes.....	50,207.11
Other Expenses.....	161,525.07	Accrued Reimbursement to State.....	55,834.49
Total Expenses (6.62% of Prem. Income).....	\$3,185,852.80	Unification for Mortality.....	47,265.35
		Miscellaneous Liabilities.....	29,243.75
		Total Liabilities.....	\$25,767,240.57
		Assets Over Liabilities.....	3,103,626.67
		Apportioned for Dividends to Policyholders.....	\$1,015,275.45
		Special Expense Guaranty Funds.....	5,000.00
			1,020,275.45
		Net Surplus (including Gen. Ins. Guar. Fund \$195,823.27).....	\$2,083,351.22

Growth of Massachusetts Savings Bank Life Insurance

End of Year	Number of Banks	Premiums Received During Year	Number of Policies in Force	Amount of Insurance in Force	Total Paid Policy-holders Dur- Year	Legal Re- serve	Surplus Inc. General Ins. Guar-anty Fund	Total Ad- mitted As- sets
1908	1	\$368. 21	282	\$114,953.00	-----	\$316.00	\$64.83	\$26,048.91
1909	2	25,377.29	2,521	992,761.00	\$878.06	21,974.00	6,058.32	82,137.17
1910	2	58,890.68	3,318	1,367,363.00	8,879.86	58,423.09	14,007.56	130,516.97
1911	3	76,348.92	5,063	1,956,038.00	12,149.74	108,261.00	28,215.19	223,130.83
1912	4	102,832.27	6,662	2,528,809.00	21,877.67	173,677.00	43,576.84	331,726.51
1913	4	124,205.08	8,054	3,150,806.00	28,796.99	260,751.00	52,302.92	430,428.89
1914	4	139,757.35	9,439	3,566,778.00	35,335.32	351,552.00	66,591.58	542,900.68
1915	4	164,038.96	10,892	4,341,205.00	56,790.27	460,665.00	75,536.24	666,750.00
1916	4	212,885.24	14,030	6,041,754.00	73,458.28	609,251.00	86,825.19	779,311.68
1917	4	261,562.27	17,680	8,139,269.00	72,870.00	778,747.00	104,148.42	990,844.55
1918	4	317,475.73	20,707	9,783,239.00	132,243.51	948,034.00	122,464.22	1,202,932.52
1919	4	352,104.12	28,148	12,373,090.00	176,331.81	1,138,807.00	143,913.51	1,418,530.52
1920	4	424,901.24	30,834	15,050,271.00	197,214.28	1,346,075.00	172,869.77	1,702,141.84
1921	4	463,792.59	31,705	16,670,103.00	212,635.56	1,568,840.00	215,379.61	2,000,393.19
1922	4	553,006.99	35,492	19,872,634.00	281,080.16	1,856,911.00	247,033.03	2,348,945.70
1923	6	714,773.56	41,283	25,677,730.00	347,569.98	2,255,202.00	281,074.62	2,834,089.67
1924	7	898,747.79	45,889	31,758,583.00	437,662.33	2,743,303.00	325,501.56	3,447,486.36
1925	8	1,148,267.07	50,953	38,105,250.00	523,062.98	3,381,058.00	383,564.35	4,246,820.39
1926	10	1,365,726.35	55,822	43,293,286.00	644,507.63	4,141,716.00	466,725.33	5,161,388.06
1927	10	1,583,746.25	61,543	49,171,745.00	770,873.45	5,019,794.00	556,375.09	6,221,049.09
1928	10	1,899,176.57	70,212	57,836,763.00	849,359.70	6,143,166.00	657,899.77	7,579,708.72
1929	10	2,369,176.34	81,440	67,588,398.00	1,304,982.34	7,414,293.00	779,738.72	9,074,805.35
1930	15	2,644,733.31	90,239	77,324,800.00	1,458,410.69	8,741,481.00	830,611.89	10,566,034.39
1931	20	3,095,271.43	101,002	90,960,522.00	1,756,711.49	10,261,409.00	948,466.70	12,313,623.34
1932	21	2,979,581.14	101,390	90,606,283.00	2,024,936.28	11,399,760.00	1,071,566.28	13,681,358.92
1933	21	3,256,410.37	103,763	93,186,980.00	2,057,691.77	12,736,686.00	1,198,474.24	15,171,273.58
1934	21	4,075,775.32	112,294	99,960,943.00	2,042,616.29	14,959,062.00	1,300,658.45	17,634,808.89
1935	23	4,300,823.47	122,725	109,645,965.00	2,296,888.40	17,213,715.00	1,566,356.43	20,181,423.34
1936	23	4,686,718.51	137,345	122,374,772.00	2,438,858.91	19,791,288.00	1,870,208.00	23,096,679.30
1937	24	5,013,694.44	156,093	139,706,498.00	2,546,982.61	22,612,796.00	2,001,406.74	26,123,367.12
1938	24	4,787,123.50	172,004	154,788,376.00	2,674,570.49	25,069,137.00	2,083,351.22	28,870,867.24
Totals	-----	48,097,312.36	-----	-----	25,486,226.85	-----	-----	-----

EXHIBIT No. 750

[Prepared by New York Savings Bank]

Policy Analysis Report, June 12, 1939

Number of Policies Examined...	1, 000	Total Amount of Insurance...	\$831, 450
Women.....	196	692 \$1, 000 Policies....	692, 000
Men.....	662	1 800 Policies.....	800
Children.....	142	1 750 Policies.....	750
		1 700 Policies.....	700
Average Age:		186 500 Policies.....	93, 000
Adults.....	36. 5	96 400 Policies.....	38, 400
Children.....	7. 5	1 300 Policies.....	300
		22 250 Policies.....	5, 500

OCCUPATIONS (ADULTS)

Engineers.....	32	Printers.....	9
Clerks.....	130	Tailors.....	33
Laborers.....	16	Retired.....	1
Musicians.....	3	Domestic Help.....	14
Students.....	34	Mechanics.....	8
Housewives.....	95	Machinist.....	8
Teachers.....	27	Butchers.....	1
Lawyers.....	21	Silk Weaver.....	1
Executives.....	59	Secretaries.....	14
Doctors.....	14	Unemployed.....	22
Merchants.....	37	Insurance.....	7
Artists.....	3	Opticians.....	1
Seamen.....	6	Manufactures.....	2
Building Employees.....	39	Photographers.....	2
Salesmen.....	95	Reporters.....	1
Chauffeurs.....	10	Social Workers.....	2
Plumbers.....	1	Restaurant Employees.....	12
Bookkeepers.....	33	Public Service.....	39
Chemists.....	7	Patrolman.....	7
Nurses.....	7	Chiropracist.....	2
Cashiers.....	3		

224 of the above applicants have applied for additional insurance.

TB:EQ.

[Initialed: T. B.]

EXHIBIT No. 751

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Premium Income and Consideration Received, Annuity Contracts

Year	Amount	Year	Amount	Year	Amount
1913.....	\$6, 350, 000	1922.....	\$14, 655, 000	1931.....	\$183, 698, 000
1914.....	7, 044, 000	1923.....	18, 265, 000	1932.....	190, 057, 000
1915.....	7, 886, 000	1924.....	25, 811, 000	1933.....	265, 337, 000
1916.....	12, 738, 000	1925.....	43, 867, 000	1934.....	414, 134, 000
1917.....	12, 314, 000	1926.....	47, 115, 000	1935.....	510, 523, 000
1918.....	14, 407, 000	1927.....	60, 632, 000	1936.....	467, 022, 000
1919.....	27, 917, 000	1928.....	108, 230, 000	1937.....	408, 175, 000
1920.....	10, 721, 000	1929.....	99, 170, 000		
1921.....	14, 411, 000	1930.....	107, 723, 000		3, 078, 202, 000

NOTE.—Includes first-year and renewal premiums on Annuities, plus consideration for supplementary contracts involving life contingencies.

Total premium income and consideration received on annuity contracts during the years 1933 to 1937, inclusive, amounted to \$2,065,191,000, or 67.11% of such income during the entire period from 1913 to 1937, inclusive. Of the \$2,065,191,000 total premium income annuity contracts during the years 1933 to 1937, inclusive, \$104,104,000 was consideration for supplementary contracts involving life contingencies.

During the years 1933 to 1937, inclusive, the total premium income and consideration on *personal* annuities (exclusive of *group* annuities) and supplementary contracts involving life contingencies amounted to approximately \$1,753,500,000, or 68 % of such income (\$2,535,000,000 approximately) received during the entire period 1913-37, inclusive.

Source: Spectator Insurance Year Book.

EXHIBIT No. 752

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Personal Annuities—10 Largest United States Companies—Increase (+) or Loss (—) in Surplus—After Appropriation for Contingency or Other Special Reserves (Unassigned Funds), for the years 1929 to 1938, inclusive

Company	1929	1930	1931	1932	1933	1934
Metropolitan Life Insurance Company	-\$19,079	+\$46,481	+\$957,592	-\$297,138	-\$138,492	-\$440,293
Prudential Insurance Company of America	-185,527	-74,022	-100,867	-187,436	-296,928	-616,689
New York Life Insurance Company	0	0	0	-2,216,414	-2,909,689	-8,410,838
Equitable Life Assurance Society of the U. S.	-175,938	+511,998	-347,455	-754,042	-5,741,361	-3,359,072
Mutual Life Insurance Company of New York ¹	+789,937	+883,213	+243,861	-245,017	+27,916	-1,853,945
Northwestern Mutual Life Insurance Company	+71,186	+81,643	+72,299	+91,090	+81,319	-3,602
Travelers Insurance Company	-3,167	+253,823	-124,283	-318,240	+197,542	-181,188
John Hancock Mutual Life Insurance Company	-10,240	-10,211	-11,473	+24,278	-103,167	-182,478
Penn Mutual Life Insurance Company	-439,002	+606,284	+278,484	-731,232	+177,296	+223,098
Mutual Benefit Life Insurance Company	-22,116	+78,882	-97,398	+1,832	-4,765	-141,685
Total, 10 companies	+6,054	+2,378,091	+870,760	-4,632,319	-8,710,329	-14,966,692

Company	1935	1936	1937	1938	10 Yr. Total
Metropolitan Life Insurance Company	-\$195,982	-\$733,969	-\$1,150,162	-\$324,108	-\$2,295,150
Prudential Insurance Company of America	-873,393	+975,318	+40,619	+31,453	-1,287,472
New York Life Insurance Company	-3,356,054	-11,706,230	-3,127,968	-5,155,342	-36,882,535
Equitable Life Assurance Society of the U. S.	-2,036,198	+4,703,011	-6,318,729	-621,283	-14,139,069
Mutual Life Insurance Company of New York ¹	-523,870	+413,548	-2,777,884	-1,605,057	-4,647,298
Northwestern Mutual Life Insurance Company	-3,114	+173,000	-203,317	-633,902	-273,398
Travelers Insurance Company	+5,972	+167,934	+237,840	-32,017	+204,216
John Hancock Mutual Life Insurance Company	-422,463	+474,519	-105,250	+172,980	-173,505
Penn Mutual Life Insurance Company	+253,399	+1,309,893	-501,178	-738,145	+438,887
Mutual Benefit Life Insurance Company	-142,761	-305,782	-200,975	-125,616	-960,414
Total, 10 companies	-7,294,494	-4,528,768	-14,107,004	-9,031,037	-60,015,738

¹ Because of the manner in which The Mutual Life Insurance Company of New York, the Mutual Benefit Life Insurance Company, and the Lincoln National Life Insurance show in their annual statements amounts which are ordinarily designated as Surplus (Unassigned Funds), and which in whole or in part in the case of these three companies are shown as reserve for contingencies with or without further characterization, the amounts designated by these three companies as reserves for contingencies have been treated as comparable to the surplus (Unassigned Funds) of the other companies.

Source: Company replies to Investment Questionnaire of Securities and Exchange Commission.

EXHIBIT No. 753

[Prepared by Securities and Exchange Commission Insurance Study Staff]

*Personal Annuities—Increase or Loss in Surplus—After Appropriation for Contingency or Other Special Reserves—26 Largest United States Companies*¹

Year	Number of Co.'s Showing Increase	Amount of Increase	Number of Co.'s Showing Loss	Amount of Loss	Total Number of Co.'s	Net Increase (+) or Loss (-)
1929-----	11	\$1,607,927	12	\$1,207,733	24	+\$400,194
1930-----	16	2,977,816	7	391,672	24	+2,586,144
1931-----	9	1,730,026	14	1,456,541	24	+273,485
1932-----	7	442,471	17	5,563,380	24	-5,120,909
1933-----	7	942,852	18	10,370,675	25	-9,427,823
1934-----	4	349,885	21	17,211,986	25	-16,862,101
1935-----	6	891,476	19	8,918,151	25	-8,026,675
1936-----	12	8,829,168	14	16,086,370	26	-7,257,102
1937-----	6	671,786	20	16,573,201	26	-15,901,415
1938-----	5	1,214,478	21	13,760,956	26	-12,546,478

¹ Excluding Western and Southern Life Insurance Company for the years 1929-1932, inclusive, when it did not write annuity business, and Pacific Mutual Life Insurance Company for the years 1929-1935 inclusive, as the present company was not organized until July 22, 1936. Because of the manner in which The Mutual Life Insurance Company of New York and the Mutual Benefit Life Insurance Company show in their annual statements amounts which are ordinarily designated as Surplus (Unassigned Funds) and which in whole or in part in the case of these two companies are shown as reserve for contingencies with or without further characterization, the amounts designated by these two companies as reserves for contingencies have been treated as comparable to the Surplus (Unassigned Funds) of the other companies.

Source: Company replies to Investment Questionnaire of Securities and Exchange Commission.

EXHIBIT No. 754

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Principal Inter-Company Meetings Re Annuities

Date of Meeting	March 15, 1933	April 21, 1933	May 18, 1933	March 8, 1934	March 23, 1934	April 12, 1934	October 18, 1934
UNITED STATES COMPANIES							
Metropolitan Life Insurance Co.	X	X	X	X	X	X	X
Prudential Insurance Co.	X	X	X	X	X	X	X
New York Life Insurance Co.	X	X	X	X	X	X	X
Equitable Life Assurance Co.	X	X	X	X	X	X	X
Mutual Life Insurance Co.	X	X	X	X	X	X	X
Northwestern Mutual Life Insurance Co.	X	X	X	X	X	X	X
Travelers Insurance Co.	X	X	X	X	X	X	X
John Hancock Mutual Life Insurance Co.	X	X	X	X	X	X	X
Penn Mutual Life Insurance Co.	X	X	X	X	X	X	X
Mutual Benefit Life Insurance Co.	X	X	X	X	X	X	X
Massachusetts Mutual Life Insurance Co.	X	X	X	X	X	X	X
Aetna Life Insurance Co.	X	X	X	X	X	X	X
New England Mutual Life Insurance Co.	X	X	X	X	X	X	X
Union Central Life Insurance Company	X	X	X	X	X	X	X
Provident Mutual Life Insurance Co.	X	X	X	X	X	X	X
Connecticut Mutual Life Insurance Co.	X	X	X	X	X	X	X
General American Life Insurance Co.	X	X	X	X	X	X	X
Phoenix Mutual Life Insurance Co.	X	X	X	X	X	X	X
National Life Insurance Co. (Vt.)	X	X	X	X	X	X	X
State Mutual Life Insurance Co.	X	X	X	X	X	X	X
Equitable Life Assurance Co. of Iowa	X	X	X	X	X	X	X
Guardian Life Insurance Co.	X	X	X	X	X	X	X
Fidelity Mutual Life Insurance Co.	X	X	X	X	X	X	X
Home Life Insurance Co., New York	X	X	X	X	X	X	X
Berkshire Life Insurance Co.	X	X	X	X	X	X	X
United States Life Insurance Co. (New York)	X	X	X	X	X	X	X
Total insurance in force X United States companies ¹	\$52,519,503	\$52,519,503	\$73,683,826	\$50,802,359	\$77,474,121	\$70,841,446	\$80,017,929
Total admitted assets X United States companies ¹	\$11,116,127	\$11,116,127	\$15,125,332	\$11,347,274	\$17,131,522	\$15,413,548	\$18,527,848
Percentage of total insurance in force in all United States companies represented by X United States companies	50.91	50.91	71.41	51.85	79.07	72.30	81.20
Percentage of total admitted assets in all United States companies represented by X United States companies	53.56	53.56	72.88	54.30	81.99	73.76	84.82
CANADIAN COMPANIES							
Sun Life Assurance Co. of Canada			X		X	X	X
Imperial Life Assurance Co.			X		X	X	X
Canada Life Assurance Co.			X		X	X	X

Date of Meeting	September 24, 1935	October 10, 1935	October 24, 1935	June 9, 1936	June 30, 1936	April 27, 1938	October 5, 1938
UNITED STATES COMPANIES							
Metropolitan Life Insurance Co.	X	X	X	X	X	X	X
Prudential Insurance Co.	X	X	X	B	X	X	X
New York Life Insurance Co.	X	X	X	X	X	X	X
Equitable Life Assurance Society of U. S.	X	X	X	X	X	X	X
Mutual Life Insurance Co.	X	X	X	X	X	X	X
Northwestern Mutual Life Insurance Co.	X	X	X	X	X	X	X
Travelers Insurance Co.	X	X	X	X	X	X	X
John Hancock Mutual Life Insurance Co.	X	X	X	X	X	X	X
Fenn Mutual Life Insurance Co.	X	X	X	X	X	X	X
Mutual Benefit Life Insurance Co.	X	X	X	X	X	X	X
Massachusetts Mutual Life Insurance Co.	X	X	X	X	X	X	X
Aetna Life Insurance Co.	X	X	X	X	X	X	X
New England Mutual Life Insurance Co.	X	X	X	X	X	X	X
Union Central Life Insurance Company	X	X	X	X	X	X	X
Provident Mutual Life Insurance Co.	X	X	X	X	X	X	X
Connecticut Mutual Life Insurance Co.	X	X	X	X	X	X	X
Phoenix Mutual Life Insurance Co.	X	X	X	X	X	X	X
National Life Insurance Co. (Vt.)	X	X	X	X	X	X	X
State Mutual Life Insurance Co.	X	X	X	X	X	X	X
Equitable Life Assurance Co. of Iowa	X	X	X	X	X	X	X
Guardian Life Insurance Co.	X	X	X	X	X	X	X
Fidelity Mutual Life Insurance Co.	X	X	X	X	X	X	X
Home Life Insurance Co., New York	X	X	X	X	X	X	X
Berkshire Life Insurance Co.	X	X	X	X	X	X	X
United States Life Insurance Co. (New York)	\$52,742,596	\$76,037,487	\$76,471,785	\$30,824,569	\$79,546,853	\$88,750,177	\$85,256,178
Total admitted assets X United States companies ¹	\$12,663,077	\$18,122,796	\$18,224,830	\$9,533,602	\$19,127,005	\$22,352,521	\$22,205,280
Percentage of total insurance in force in all United States companies represented by X United States companies	52.36	75.51	75.92	36.56	78.97	81.00	76.77
Percentage of total admitted assets in all United States companies represented by X United States companies	54.54	78.06	78.50	41.06	82.39	85.16	80.01
CANADIAN COMPANIES							
Sun Life Assurance Co. of Canada	X	X	X		X	X	
Imperial Life Assurance Co.	X	X	X				
Canada Life Assurance Co.	X	X	X				

A. Did not have representative present but wrote letter agreeing to follow action of majority.

B. Invited—wrote letter instead.

¹ These figures have been computed from the nearest year-end statement.

EXHIBIT No. 755

[From files of Aetna Life Insurance Co.]

NEW YORK LIFE INSURANCE COMPANY

OFFICE OF VICE PRESIDENT AND CHIEF ACTUARY

51 Madison Avenue, Madison Square, New York, N. Y.

APRIL 22, 1933.

Annuity Rates.

Mr. E. E. CAMMACK,

*Vice President and Actuary, Aetna Life Insurance Company,
Hartford, Conn.*

DEAR MR. CAMMACK: A month ago there was a meeting in my office of the representatives of five companies, Metropolitan, Prudential, Equitable, Mutual and New York Life, with regard to a proposed increase in the annuity rates. It was then suggested that we prepare the experience of the five companies for recent years so as to show whether the mortality had been improved or not. For your information I am enclosing a synopsis of this investigation. It should be stated, however, that there are two of the companies which included annuities issued in conjunction with single-premium policies. Arrangements are being made to have these omitted from the experience but they are not likely to affect it materially. It is anticipated that the effect of omitting them would be to slightly decrease the mortality. Of course, it is understood that this material is for the confidential information of the Travelers, Connecticut General, and yourselves.

We had a meeting of the representatives of the five companies at the Prudential yesterday, during which your letter to Mr. Little of the 12th instant and also your more recent letter to Mr. Hutcheson were read. We are very glad to learn that the Hartford companies are ready to cooperate with us in obtaining an increase in the annuity rates.

The following program was decided to be the most feasible although not all the members present wished to make a final decision without further consultation with other Officers of their companies:

1st. *Immediate Annuities Nonparticipating*.—Both male and female to be taken on the American Annuitants table as of one year younger, the rate of interest to be 3½% and the loading 5% of the gross premium. This would apply to cash refund or continuation of annuity to beneficiary, also to joint lives.

2nd. *Deferred Annuities*.—Single Premium Deferred Annuities nonparticipating to be treated the same as Immediate Annuities whether with or without return at death within the deferred period.

Annual premium Deferred Annuities to be treated the same as Immediate Annuities so far as the rates of mortality and interest are concerned, and as to taking the age one year younger, but the loading to be 6% of the net if deferred one year, 7% if deferred two years, increasing by 1% each year to a loading of 15% of the net if deferred ten or more years. These are nonparticipating and either with or without return. (It may be that it would be better to make a lower percentage loading on the gross premium.)

The question of participating Deferred Annuities was taken up but as no one present seemed to be issuing them now except occasionally, no decision was made other than that the rate of interest should be lower and the loading somewhat higher than in the above.

3rd. *Retirement Annuities Participating*.—Under Retirement Annuities would come the cases where a yearly deposit was made as in a sinking fund to purchase an annuity at usually ages 50 to 70. It was agreed that the loading would be 12½% of the gross and that the rate of interest prior to the date the annuity was entered upon would be 3½%. The rate used in converting the cash value into annuity at maturity age would be the net American Annuitant's Select 3½% table. It was thought that the age should not be moved back one year, but some tests are to be made to determine whether the new gross rates, less 3%, would result in any anomalies by comparison with the above. At least one company provides for a net rate based on 3½% interest or the then existing gross rates less 3%.

Under the participating Single Premium Retirement Annuity a loading of 7½% of the gross was suggested which entailed raising the rate of several companies. The same basis would be used at maturity date as under the annual premium form.

4th. *Survivorship Annuities*.—There did not seem to be any reason for coming to a decision regarding Survivorship Annuities as so few of them were issued, and as some companies issued nonparticipating and others participating forms.

5th. *Options in Insurance Policies*.—It was pointed out that the options in the policies gave results inconsistent with the present annuity rates and would do so to a greater extent under the proposed changes. Instances were given where the options in the policy providing for life annuity with five years certain gave more favorable results than if new annuities were purchased, the company paying a commission thereon. It was thought most desirable that, when the companies were issuing new forms of policies, the option should differentiate between male and female, that the portion involving life contingencies should be on the American Annuitant's Select $3\frac{1}{2}\%$ table, but that the annuity certain portion could be based on either 3% or $3\frac{1}{2}\%$ interest, depending upon the present practice of the companies.

It was not thought feasible for all companies to put the program into effect until the 1st of July, especially as one company at least had a printed pamphlet covering extensive Joint and Survivorship Annuity rates. One company announced that the new program would go into effect at once if there was cooperation among the companies.

We shall appreciate it if you will take up the foregoing suggestions with the Travelers, Connecticut General, and any of the other companies which you wish to consult, then let us know your ideas as soon as possible. We should like to have a definite program to announce at the Senior Actuaries Club, as a number of other companies propose to follow the lead of the principal companies.

Sincerely yours,

ARTHUR HUNTER.

Encl.

EXHIBIT No. 756

[From files of The Travelers Insurance Co.]

MAY 19, 1933.

[Initialed: D. B.]

Re Conference of Companies Life Annuity Rates—Policy Values.

President ZACHER

Vice President HOWARD:

A conference of the actuaries of 22 of the leading Life companies was held at the New York Life yesterday to discuss the above subjects.

LIFE ANNUITIES

After much discussion, 18 companies voted tentatively for the following uniform program.

Rates.—Single Premium Life Annuities (immediate annuities, cash refund, and joint life annuities)—

Men—American Annuitants Select, net rates taken for one year younger than actual age; $3\frac{3}{4}\%$ interest, loaded $4\frac{1}{2}\%$ of gross.

Women—American Annuitants Select, net rates for men taken five years younger than actual age; $3\frac{3}{4}\%$ interest, loaded $4\frac{1}{2}\%$ of gross.

Commissions.—3% to soliciting agent; $\frac{1}{4}\%$ overriding to general agents.

Date Effective.—On or about July 1, 1933—not later than August 1.

It was first voted that rates for male lives be based upon net rates for one year younger than actual age, loaded 5%, and to use for females the female table of net rates one year younger than actual age, loaded 5%. For ease in calculation of joint plans and for economy in manual space, it was thought more desirable to use one table—that for male lives. The basis of rates finally decided upon is a practical equivalent for females and $\frac{1}{2}$ of 1% loading lower for males.

The above rate basis amounts to an increase at the probable ages of issue (ages 60 to 70 years) of approximately 4.7% over our present rates for males, and approximately 4.6% for females. As we have not taken into consideration the proposed reduction in our general agents overriding from 1% to $1\frac{1}{4}\%$, this saving can be added to the proposed increase over our present rates, making a figure of approximately 5.2% for males and 5.1% for females. As most of the other companies are charging rates approximately 2% lower than ours, this means an increase for the other companies of approximately 6.9% for males and 7.7% for females.

The companies voting for the above proposal were:

New York Life.	Massachusetts Mutual.
Mutual Life.	Connecticut General.
Equitable.	Prudential.
Metropolitan.	Home.
Aetna.	National of Vermont.
John Hancock.	Sun Life.
Travelers.	Canada Life.
Berkshire.	Mutual Benefit.
U. S. Life.	Northwestern Mutual.

The last two companies were not represented, but Chairman Hunter read letters stating that they would go along with the majority of the companies both as to rates and commissions. The following companies did not vote for the proposal for the reasons stated:

Fidelity Mutual: Had not had time to discuss the matter with officials; probably would agree.

Provident Mutual: Prefers 4% interest but would adhere to 3½% outside commission. Mortality had been about 100% of expected on American Annuity Select. Would increase rates but probably not so much as proposed.

Penn Mutual: Matter had not been discussed with officials. Would prefer 3% commission to soliciting agents; 1% overriding. Would probably go along with other companies, however, to new basis.

Phoenix Mutual: Thinks interest basis all right but would probably want to adhere to 2% commission to solicitor; ¼% overriding, reducing gross rates of other companies correspondingly (about 1¼%).

Connecticut Mutual: Feels 4% interest better basis. Would adhere to 3½% outside commission and increased rates but probably not so much as other companies.

Guardian: Thinks increase too great, but probably will go along with other companies after further discussion with officers.

New England Mutual: Not present, but feeling of some officials—particularly J. Hancock—that they would not increase so much, although Dr. Hunter felt confident that they would go along with other companies.

It was decided that each company would write the Chairman after further consultation with its officials stating what each was prepared to do. If the list of companies voting for the proposed basis holds together or enlarges, the general move toward increase will undoubtedly be adopted this summer.

After the meeting the general feeling was that if some missionary work were done on the Connecticut Mutual, Phoenix Mutual, and New England Mutual, practically all important companies, with the possible exception of the Provident Mutual, would go along on the proposed program.

Following the disposal of Single Premium Annuity rates and commissions, there was further discussion of rates for Single and Annual Premium Deferred Annuities and Single Premium Retirement Annuities (deposit forms). The general tendency was toward higher rates, but nothing in the way of a general agreement could be worked out.

The question of checking more carefully evidence of date of birth of applicants was then taken up. The Mutual Life has for many years made a particular point of investigating and checking thoroughly the date of birth information. Their mortality is much higher, both by number and amount, males and females, than that of other companies, and they feel that this is due mainly to their insistence upon reliable date of birth information before policy is issued.

New York Life stated that in recent years when, after thorough checking, there is a question as to the correct date of birth, they have not admitted the age and have reserved the right in their contract to modify the benefit if subsequent investigation discloses error. Dr. Hunter is going to make a survey of the companies' methods of checking date of birth and make report to the companies.

POLICY VALUES

There was a long and interesting discussion of proper surrender charges, propriety of early dividends, and possibility of payment of loans in installments and cash values after a deferred period.

All companies agreed that it would be wise if it were made mandatory by statute that all life policies contain a provision which would give the company the right to defer payment of cash and loan values one year, with the possible modification that loans be granted in equal instalments during this one-year period of

deferment. A further modification of this which would give the company the right to defer payment of cash values six months and of granting loans in monthly instalments over a period of one year also received the support of the majority of the companies.

An effort was then made to get the consensus of opinion of the participating companies as to proper surrender charges. After many trials there was finally a unanimous vote for a program of surrender charges similar to that adopted recently by the stock companies. No date for putting such a program into effect could be arranged, however, as a number of the participating companies felt that there should be a general agreement on early dividends as well as surrender charges. Apparently several of the companies—at least, the New York Life, Metropolitan, Prudential, and Mutual Life—will on January 1, 1934, increase their surrender charges and distribute them through a longer policy period than at present. Some companies, such as the Massachusetts Mutual and Provident Mutual, wanted to delay till Fall or until next year, which would bring their earliest action to the Fall of 1934.

The discussion was frank and thorough, so that all actuaries undoubtedly gained by the interchange of ideas. There is a possibility that a further meeting will be held in the course of the next few weeks, at which time more progress may be made in bringing the participating companies closer together in the matter of eliminating or reducing early dividends and increasing surrender charges.

Throughout the conference it was apparent that the larger companies were quite willing to make changes for the good of their companies and the business in general. The opposition was generally found in the smaller, self-sufficient, participating companies. If these concerns could be brought to a better appreciation of the current situation, the present is a wonderfully fine opportunity for clearing up many of the present troubles of the life business.

(Signed) B. D. F.,
Vice President and Actuary.

BDF:B.
(Copy to Actuary Hammond.)

EXHIBIT No. 757

NEW YORK LIFE INSURANCE COMPANY OFFICE OF VICE PRESIDENT AND CHIEF ACTUARY

51 Madison Avenue, New York

JUNE 13, 1933.

MEMORANDUM REGARDING NEW ANNUITY RATES

The following companies have decided to adopt the new schedule of rates, at least for immediate annuities, the dates being given wherever stated:

- Metropolitan—On or about July 1st.
- Prudential—Ditto.
- New York Life—Ditto.
- Equitable—Ditto.
- Mutual—Ditto.
- Travelers—Not later than August 1st.
- Aetna—On or about August 1st.
- Connecticut General—Ditto.
- Union Central—
- Northwestern Mutual—
- John Hancock—Intend to revise annuity rates generally to conference basis, but not as early as July 1st.
- Berkshire Life—As early as possible.
- United States Life—
- Minnesota Mutual—
- State Mutual—Plans to adopt the new single premium immediate annuities on January 1, 1934.
- Mutual Benefit—Does not expect to adopt the same basis but their rates will be noncompetitive.
- Penn Mutual—Favorably considering adopting new rates.
- Massachusetts Mutual—Final decision not taken—will doubtless adopt.

Canadian companies—Majority in favor of adopting somewhat similar rates in near future.

Fidelity Mutual—Will increase rates but basis and time not decided.

Guardian Life—Ditto.

New England Mutual—No definite decision on account of absence of President.

Connecticut Mutual—Expect to increase rates but not to conference basis.

Provident Mutual—Ditto.

Phoenix Mutual—Ditto.

National Life—May adopt entire program in near future.

Home Life—May go to conference but not before Jan. 1, 1934.

EXHIBIT No. 758

[From files of The Prudential Insurance Co. of America]

NEW YORK LIFE INSURANCE COMPANY

OFFICE OF VICE PRESIDENT AND CHIEF ACTUARY

51 Madison Avenue, Madison Square, New York, N. Y.

JUNE 14, 1933.

Notice to Agents:

NEW ANNUITY RATES

The Company has adopted a new basis for annuity rates which will become effective July 6, 1933.

The new rates provide for a moderate increase in premiums, which has been found necessary on account of the increased longevity of annuitants, and a lower net return on the Company's investments.

The plans affected are the Life Annuities without Refund, with Instalment Refund and with Cash Refund; Deferred Annuities; and Joint and Survivor Annuities. An increase has also been made in the basis for Single Premium Retirement Annuities. The premiums for the Annual Premium Retirement Annuity, the Survivorship Annuity, and the Deferred Survivorship Annuity remain unchanged.

In order to make the new rates for the various annuity forms available to our agents, we have prepared a new Annuity Rate Book, a supply of which will be sent to each Branch Office within the next few days. This book will contain all the principal annuity plans issued by the Company. The rates for Deferred Annuities are not given as very few are issued. This form has been almost entirely replaced by the Retirement Annuity, which is a more flexible and attractive form.

The old rates will apply to Annuity applications received at the Branch Offices on or before July 5th, provided the premium is paid on or before July 17th, 1933.

After the new rates become effective, please destroy any of the present literature containing premium rates or values which have been changed. New literature to replace that destroyed will be sent to the Branch Offices shortly.

(Signed) ARTHUR HUNTER,
Vice President.

EXHIBIT No. 759

[From files of Connecticut General Life Insurance Co.]

NEW YORK LIFE INSURANCE COMPANY

OFFICE OF VICE PRESIDENT AND CHIEF ACTUARY

51 Madison Avenue, Madison Square, New York, N. Y.

MARCH 12, 1934.

MR. JOHN M. LAIRD,
Vice President, Connecticut General Life Insurance Company,
Hartford, Conn.

DEAR MR. LAIRD: A meeting was held at my office on March 8 of the actuarial representatives of the Metropolitan, Prudential, Mutual Life, and Equitable, with regard to cash surrender values, policy loans, and options in policies. Incidentally the bases of annuities were discussed. It was decided to invite the representatives of a number of the principal companies to join with us in considering these matters. I am accordingly writing to about fourteen of the largest companies

today asking them if they could meet with the actuaries of the other five companies at my office on Friday, the 23rd instant, at ten o'clock.

In order to focus our attention on a definite plan for increasing the surrender charges, a program is enclosed.

Yours very truly,

(Signed) ARTHUR HUNTER.

Encl.

"EXHIBIT No. 760" appears in the appendix to Hearings, Part V, p. 2301.

EXHIBIT No. 761

[From files of Connecticut General Life Insurance Co.]

[File Rates & Values]

SYNOPSIS OF MEETING HELD IN DR. HUNTER'S OFFICE, MARCH 23, 1934, ON SURRENDER VALUES

In the case of several of the companies represented no recent official consideration had been given to cash values so that a good many opinions expressed were personal. My impression of the meeting as a whole was that it simply served the purpose of gathering opinions quite often personal on the subjects discussed.

The main thing discussed, of course, was surrender values. Arthur Hunter stated that he had written Graham of the American Life Convention in regard to the Missouri law and had received the opinion that it might be possible to have the law changed in 1935.

Cammack and Little were the outstanding advocates of surrender charges after the twentieth year. Cammack argued that even if you didn't need a surrender charge because of low asset shares, one was needed during the depression periods. He felt that when your surrender values were \$25.00 a thousand less than the reserve you could justify, for instance, the amortized value of bonds at times when the actual market value was lower. Little's theory was that we should have minimum surrender values which could be liberalized in good times by the payment of a final dividend. My interpretation of his thought was that he felt we should have participating surrender values as well as participating premiums. The Connecticut Mutual were for low surrender charges. They felt that if the companies adopted high surrender charges today, they would gradually increase their surrender values with the return of good times. They felt it was better to keep the surrender charge moderate with the hope that the surrender values would continue unchanged. They were strongly in favor of a six months' waiting period. Henderson of the Equitable said that he felt that the full reserve should be paid in twenty years, that he was in favor of the surrender charges he suggested except the minimum of \$10.00. Someone asked him to express the theory back of his recommendations. Larus of the Phoenix Mutual, explained for him the \$10.00 minimum charge, and Little remarked that Larus had interpreted Henderson's formula for him.

Wood, of the Canada, felt that we should have higher surrender charges than Henderson recommended. He was inclined to feel that we should have a \$25.00 surrender charge for fifteen years and at least a \$10.00 surrender charge after the twentieth year. He said that the Toronto companies might adopt a \$25.00 surrender charge forever if they had enough company.

Percy Evans (Northwestern Mutual) stated that he was personally in favor of larger surrender charges than Henderson's. He felt, however, that his company wouldn't care to change at the present time because they had changed quite recently.

Hutchison at first indicated that personally he might be inclined to agree with Mr. Little but didn't feel it was practical to have surrender charges after the twentieth year. As a practical measure he was inclined to feel that Henderson's schedule was about right.

Craig, as usual, seemed to be cooperative.

Larus thought we should have a surrender charge of at least \$10.00 after twenty years. He stated that he felt his company would go along on a \$25.00 surrender charge forever.

Perrin felt that Henderson's recommendations were about right but as his company had already adopted new surrender values to become effective July 1, 1934, he was inclined to believe that they wouldn't care to make another change, although it was possible if the change was general that they might go along.

Tebbetts, of the New England Mutual, said that as Mr. Smith was away he hadn't had time to discuss Henderson's recommendations at any great length, so that he wasn't in a position to say anything.

Howe said he was personally inclined toward a stiff surrender charge, but before they could go much farther than they had already gone the Massachusetts Law as it applies to Massachusetts companies would have to be changed.

Thompson, of the Mutual Benefit, said he felt that each company must decide for itself, and that they liked the six months' waiting period. The Mutual Benefit didn't appear to be cooperative. Hunter said that the New York Life was prepared to go as far as, say, ten other companies would; I presume he may have meant as a limit that recommended by Henderson. He said he had discussed with Hadley the advisability of having the laws changed. Hadley had told him that he felt before the insurance companies should ask to have any laws changed they should go as far in all respects as the law now allows.

Marshall said that as their company had recently changed, he didn't believe they would be interested in another.

Carrington, of the Union Central, was personally inclined to feel that the surrender charges recommended by Henderson were about right, but as his company had just adopted new values he didn't think they would want to make a change in the near future.

Burke, of the Sun, said their problem, of course, is different because their valuation was based on the OM (5). He indicated that they intended to change their values within a year, that Henderson's recommendations were not too bad, except he felt the \$10.00 minimum was not high enough. He said quite definitely that the Sun felt there should not be a surrender charge after the twentieth year.

Pierce, of the Massachusetts Mutual, stated that they were curbed by the Massachusetts Law, which it would be impossible to change this year. He hoped the law could be changed in 1935, and if it could he felt that his company would be willing to go along on the basis suggested by Henderson.

Some informal votes were taken:

Q. Would you be willing to recommend to your company the adoption of a provision to defer loans six months if permitted by law, and to have the thing become effective January 1, 1935, or shortly after?

A. Everyone voted "yes." This also included cash values if permitted by law.

Q. How many companies felt that there should be a surrender charge after twenty years?

A. Travelers, Aetna, Prudential, Conn. General, Canada, Phoenix.

Q. How many of the other companies felt that there should be a surrender charge up to the twentieth year?

A. Metropolitan, Equitable, Sun, New York Life, Mutual of New York.

Q. How many companies felt that the full reserve should be paid in ten years.

A. Northwestern Mutual, Conn. Mutual, Union Central Provident, John Hancock, Mass. Mutual, Penn Mutual.

Except for the Conn. Mutual, those representing these companies indicated that personally they felt that there should be a surrender charge for twenty years but that they doubted very much if their companies would be interested in changing to such a basis. Most of them had changed their surrender values quite recently.

The New England Mutual and the Mutual Benefit did not vote on any of these.

Q. How many companies feel that the first cash value should be at the end of three years, except in short-term Endowments?

A. About half the companies voted "yes" and the other half felt that if we paid second-year values on short-term Endowments we should on Ordinary Life at the high ages.

Some of the other things that were mentioned for consideration at the Home Offices before the next meeting were as follows:

1. First dividend end of second year: The majority appeared in favor of it.
2. Optional Settlements: Dr. Hunter asked about elimination of the five-year certain period. The Penn Mutual stated that they were going to the American Annuity 3½% Select basis. The New England Mutual are considering doing the same. The John Hancock, if I understood what House said, have already gone. (My notes here aren't too good.)

3. Annuity rates: Dr. Hunter said there was some feeling that they should go to $3\frac{1}{2}\%$, and a higher loading than we have now. They felt the higher loading necessary for fear that taxes would increase. As an alternative to the $3\frac{1}{2}\%$ rates he said we could go to a 3% rate with even a higher loading and make them participating. A vote was taken on $3\frac{1}{2}\%$ interest, $6\frac{1}{2}\%$ loading, and one year down in age. Those voting "yes" were: Metropolitan, Prudential, Mutual, New York Life, Equitable, Mutual Benefit, Mass. Mutual, Northwestern, Travelers, Aetna.

The Retirement Annuity was also discussed, especially the single-premium contract. Most of those present appeared to favor the instalment cash value.

There will be another meeting in ~~Henderson's~~ [Hunter's] office at 1:30 P. M. April 12.

E. C. HENDERSON.

ECH B.
March 31, 1934.

EXHIBIT No. 762

[From files of The Travelers Insurance Co.]

OCTOBER 31, 1934.

Subject: Commissions on Life Annuities.

President ZACHER,
Vice President HOWARD,
Vice President ARMSTRONG:

A meeting of actuaries of 26 representative life companies was called by Vice President Hunter, of the N. Y. Life, following one of the sessions of the Actuarial Society Meeting in Washington recently. The purpose of the meeting was to canvass the companies as to their willingness to reduce the commissions on single-premium life annuities from $3\frac{1}{2}\%$ General Agent (Soliciting Agent, 3%) to $2\frac{1}{2}\%$ General Agent (Soliciting Agent, 2%). It was pointed out that in Canada and Great Britain outside commission of 2% or $2\frac{1}{2}\%$ were being paid and that several American companies were now paying commissions at approximately this rate in this country. To divert agents' attention from the sale of annuities to life insurance, to provide a small additional margin in the rate, and to bring the commission for life annuities more nearly in line with the sale of other investment propositions, such as bonds, it was urged by several company actuaries that the commission rate for life annuities be reduced.

A canvass of the companies represented showed that 15 of the 26 were agreeable to an outside commission of $2\frac{1}{2}\%$. These companies were as follows:

Aetna.	Mut. Life.	Prov. Mut.
Equitable, N. Y.	Mut. Benefit.	Prudential.
Imperial, Can.	N. Y. Life.	Sun Life.
J. Hancock.	Penn Mut.	Canada Life.
Metropolitan.	Phoenix Mut.	Home Life.

Four companies were not decided but would probably follow later if practical unanimity of action were obtained:

Phoenix Life.	Mass. Mutual.
Conn. Gen.	Northwestern.

Three others preferred not to change now but would probably fall in line later:

Conn. Mutual.
New England Mut.
State Mutual.

Three companies expected to make no change for the present:

Equitable of Ia.
Natl. Life of Vt.
Union Central.

When The Travelers was called upon, I stated that although our general feeling was that this was a poor time to reduce commissions, I would be glad to present the matter to our officials for further consideration. This feeling was also expressed by the Mass. Mutual, Conn. Gen., and several other companies which later on voted more definitely.

It was also brought out at the meeting that 20 of the 26 companies either had or would, on January 1, 1935, go to the same basis, or higher, of single-premium immediate life annuity rates as the new basis of The Travelers. The Canadian

Companies, the Conn. Mutual, and the Bankers Life have already advanced their rates.

The N. Y. Life and Equitable are planning January 1 to issue participating live annuity rates based on 3% interest with a higher loading and also a more severe mortality element.

Vice President and Actuary.

BDF:B.

EXHIBIT No. 763

[From files of Connecticut General Life Insurance Co.]

DECEMBER 12, 1934.

Dr. ARTHUR HUNTER,
Vice President, New York Life Insurance Company,
New York, New York.

DEAR DR. HUNTER: Prior to August 1933, we paid on single-premium life annuities 2½% to soliciting agents and 3% to general agents. At that time we raised the rate to 3% for soliciting agents and 3½% for general agents in order to be in line with the prevailing rates of other companies.

We are in sympathy with the present trend towards 2% for soliciting agents and 2½% for general agents, but we have taken many negative steps during the last year or two, and on January 1, 1935, we are further reducing surrender values and increasing premiums on both insurance and annuities. We hesitate to be one of the pioneers in the commission reduction, particularly as our general level of commissions on insurance and annuities is lower than that of some of our competitors.

Naturally we are influenced by the action of such companies as the New York Life, Travelers, and Aetna, but we have understood that several of the companies of about our size are deferring action. Is it feasible for you to give us a complete list of the companies which have definitely decided to change as of January 1 or as of an early date thereafter?

Very truly yours,

Vice President.

JML:MRF.

EXHIBIT No. 764

[From files of Connecticut General Life Insurance Co.]

[File rates and values]

NEW YORK LIFE INSURANCE COMPANY

OFFICE OF VICE PRESIDENT AND CHIEF ACTUARY

51 Madison Avenue, Madison Square, New York, N. Y.

DECEMBER 13, 1934.

Mr. JOHN M. LAIRD,
Vice President, Connecticut General Life Insurance Co.,
Hartford, Conn.

DEAR MR. LAIRD: Your letter of the 12th instant was duly received.

I have a knowledge of what the majority of the leading companies will do with regard to commission on Single Premium Annuities, but have asked Mr. Larus to obtain definite information with regard to the others. He will then send a notice to all the Companies which took part in the conference. I know that the Equitable, Prudential, Metropolitan, Travelers, Aetna, and New York Life have all adopted the new scale of commission. There are several others, including the Penn Mutual and Phoenix Mutual, that I understand have followed suit, but Mr. Larus will get definite information from them.

Yours very truly,

(Signed) ARTHUR HUNTER,
Vice President.

EXHIBIT No. 765

[From files of Connecticut General Life Insurance Co.]

[Initialed: F. B. W. E. C. H.]

[Company seal]

Organized 1851

PHOENIX MUTUAL LIFE INSURANCE COMPANY

Hartford, Connecticut

ARCHIBALD A. WELCH, *President*JOHN R. LARUS, *Vice President and Actuary*Actuarial Department: Alden T. Bunyan, Associate Actuary; Harley W. Dewey, Assistant Actuary;
Harold M. Springer, Assistant Actuary

DECEMBER 15, 1934.

Mr. JOHN M. LAIRD,

*Vice President, Connecticut General Life Ins. Co.,
Hartford, Connecticut.*

DEAR JACK: Dr. Hunter has suggested that I prepare at this date a second symposium on annuity rates and commissions. Will you accordingly be good enough to designate how your company stands at present on these two points. The terminology to be used in the synopsis will probably be as follows:

Rates

A. On January 1, 1935, will be using new rates ($6\frac{1}{2}\%$ loading on $3\frac{1}{2}\%$ table rated down one and five years) or higher.

B. Will probably make such change within few months.

C. No immediate intention of making change.

Commissions

a. On January 1, 1935, will be paying not over 2% to subagent plus $\frac{1}{2}\%$ overriding.

b. Will change to this basis within a few months.

c. Prefer not to change in near future, but will probably fall in line if practical unanimity is obtained.

d. Expect to make no such change.

My understanding is that the Aetna, Equitable of New York, Metropolitan, New York, Prudential, and Travelers have announced not only that they are adopting new rates, but that they have also adjusted commissions to the 2% plus $\frac{1}{2}\%$ level. The purpose of this letter is to find out how the other companies stand at the present time and disseminate this information, to be kept confidential among the different executives.

Very truly yours,

(Signed) JOHN R. LARUS,
Vice President and Actuary.

JRL:H.

Summarizing the questionnaire sent out last week, the following companies will have annuity rates at least as high as the new nonparticipating rates, in effect in January 1935.

Aetna.	Home Life.	New York Life.
Bankers Life.	Imperial.	Provident Mutual.
Canada Life.	Massachusetts Mutual.	Prudential.
Connecticut Mutual.	Metropolitan.	State Mutual.
Connecticut General.	Mutual Life.	Sun Life.
Equitable, New York.	Mutual Benefit.	Travelers.

The Penn Mutual and the John Hancock will probably adopt the new rates by April 1. The Equitable of Iowa and the Phoenix Mutual will adopt rates slightly more favorable, while the National Life, New England Mutual, Northwestern, and Union Central have as yet reached no decision.

The following companies have adopted the commission scale not exceeding 2% to the subagent with $\frac{1}{2}\%$ overriding.

Aetna.	Mutual Benefit.
Bankers Life.	New York Life.
Canada Life.	Provident Mutual.
Equitable, New York.	Prudential.
Home Life.	Sun Life.
Imperial.	Travelers.
Metropolitan.	
Mutual Life (so far as agents of other companies are concerned).	

The Connecticut General and the Penn Mutual will probably make the change within a few months. The Northwestern will not accept business from other than their own agents. No decision has been reached by the others.

John R. Larus/H.

EXHIBIT No. 766

[From files of Connecticut General Life Insurance Co.]

[File Annuities]

MEETING AT DR. HUNTER'S OFFICE, OCTOBER 10, 1935

1. Rate of interest to be allowed on sums left on deposit, including dividends, death losses and maturity values.

New York Life will pay 3% on all dividend accumulations; 3% on all settlements subject to call, and $3\frac{1}{2}\%$ on all settlements not subject to call. Over 50% of their dividends and over 40% of their death losses are now being left on deposit.

Prudential will pay on deposits only $3\frac{1}{2}\%$ or 3% actually guaranteed, and Little indicated that they will never again pay excess interest.

Aetna.....	$3\frac{1}{2}\%$.
Mutual Benefit.....	Probably 4% on settlements and $3\frac{3}{4}\%$ on accumulations.
Equitable of N. Y.....	Will probably reduce from the present rates of 3.65 and 3.75.
Mutual.....	On some policies they guarantee to allow the same rate as in the dividend formula, which is now 4.1. They will probably therefore use the same rate for everything.
Conn. General.....	3.75.
National.....	3.8 probably.
Mass. Mutual.....	3.75 probably.
Metropolitan.....	3.75 probably.
Travelers.....	May discontinued the 4% guaranteed.
Equitable of Iowa.....	Probably 4%.
Sun.....	Probably less than $3\frac{3}{4}\%$.
Canada.....	Probably less than $3\frac{3}{4}\%$.
Conn. Mutual.....	Probably 4% or less.
Penn.....	$4\frac{1}{4}\%$ to June 30th, then probably 4%.
Phoenix.....	4% to July 1st.
Imperial.....	4% or less.
John Hancock.....	$3\frac{1}{2}\%$.
New England.....	May go down to 4%.
Home.....	Now 4%.
Provident.....	Now $4\frac{1}{4}\%$, will probably go to 4% on dividends but continue $4\frac{1}{4}\%$ on settlements.

2. Dividends for 1936.

New York: a new formula reducing the dividend by at least 5%, with an average reduction of $8\frac{1}{2}\%$. On single premiums they will cut the dividend in two, and on paid-ups will make a drastic reduction.

Equitable of N. Y.....	Probably a drastic reduction.
Mutual Benefit.....	Continue.
Provident.....	Continue one more year.
Home.....	May continue.
John Hancock.....	Probably continue.

Imperial.....	Increase from present 50% of top schedule to 65% of top.
Prudential.....	Reduce by 10%, that is, reducing the interest factor by $\frac{1}{4}\%$.
Phoenix.....	Uncertain.
Penn.....	Uncertain.
Conn. Mutual.....	Will keep the same total distribution on premium-paying policies but will reduce interest return from $4\frac{1}{4}\%$ to 3.9 and will increase the dividends at early durations.
Canada.....	Have already made a drastic reduction.
Sun.....	Have already made a drastic reduction.
Equitable of Iowa.....	Will have a new formula with about the same total distribution.
Metropolitan.....	On May 1st will probably reduce.
Mass. Mutual.....	Continue one more year.
National.....	A new scale, distributing about the same total but with reduction on paid-ups and an increase on early durations.
Conn. General.....	Continue, but recently raised single premiums thus giving materially higher net cost on this form.
Aetna.....	New formula assuming $3\frac{3}{4}\%$ interest, giving an increase for the first 15 years but thereafter a decrease, thus making the total amount distributed about the same as under the old formula. On January 1st they will go on a 3% reserve basis for mutual.
Mutual.....	No decision.

3. Rates of consideration for annuities.

The New York Life has already decided to continue the dividends already estimated on about a $3\frac{1}{2}\%$ interest rate but in view of the general conservative feeling in the meeting, both the New York and the Equitable may change to non-participating 3% premiums or participating $2\frac{1}{2}\%$ premiums. During the discussion there was such a strong tendency towards higher single premiums that it was finally decided to have each person present sound out his company on the possibility of going to nonparticipating 3% single premiums for straight life annuities on January 1, 1936. After Dr. Hunter has heard from the various persons, he may call another meeting to crystallize opinion.

The following companies indicated that they would like to go along on such a change:

Conn. General.	Phoenix.
Mass. Mutual.	Prudential.
Metropolitan.	John Hancock.
Travelers.	Home.
Canada (but would prefer $2\frac{1}{2}\%$ interest and a smaller loading).	Provident.
Penn.	Mutual Benefit.

The following companies did not indicate what action they would take if such a change is generally approved: Conn. Mutual, Aetna, Equitable of Iowa.

The National probably would not join the procession until several months after all the others had acted.

There is practically no sale for old-fashioned deferred annuities without return; about eight companies now issuing annual-premium retirement annuities but not single-premium. Each member is to sound out his company and notify Dr. Hunter as to whether they would be willing to withdraw single-premium retirement annuity.

The Travelers, Conn. General, Mass. Mutual, and at least one other company issuing the single-premium retirement annuity pay the cash value only in installments. Dr. Hunter evidently wanted the cash values eliminated but the general feeling was that it would be simpler to withdraw the contract entirely. (See #6, Discussion Sheet.)

The New York has been issuing both a cumulative and a noncumulative single-premium retirement annuity. Under the cumulative, apparently the man has the right to make additional large deposits during the first three years and if so, gets the benefit of the premium rate in force when his policy was first issued.

4. *Should settlement options be changed in policies so that 3% or 3½% interest is not allowed for an indefinite period and should we limit the instalment options to 20 years?*
5. *Should the special agreements which generally combine two settlements in the policy be discontinued?*

Dr. Hunter evidently wanted to start a movement to curtail these prolonged settlements but the Mutual Benefit and the Mutual Life practically killed the movement by saying they would continue to do almost anything. Apparently the Northwestern Mutual is also very liberal but is said to be receding from such liberality. The Canada Life for seven years has had in its contracts a provision that the settlement options will be available "during such time as may be agreed upon by the Company."

7. *What limits should be placed on the amount of single-premium insurances and annuities? Should short-term Endowments be excluded?*

Present limits are roughly as follows:

New York	\$100,000.
Mutual	"Much larger."
Aetna	50,000.
Conn. General	25,000 on annuities.
Mass. Mutual	25,000.
Metropolitan	350,000 graded on insurance; \$1,000 a month on annuities.
Travelers	100,000 on annuities.
Equitable of Iowa	50,000.
Sun	50,000.
Canada	50,000.
United States	50,000.
Conn. Mutual	25,000.
Penn	50,000 on annuities; 25,000 on insurance.
Phoenix	27,000.

Single Premium Endowments: Four companies issue Five Year; nineteen issue Ten Year; New York Life, Equitable, and Aetna, Fifteen Year or longer.

Company	Combination age limit	Premium
Equitable	70	\$110,000
Mutual	70	110,000
Conn. General		108,500
Travelers		110,000
Equitable		110,000
Sun	70	110,000
Prudential		110,000
Phoenix	70	105,000
John Hancock		108,000

The Equitable feels that insisting on a medical examination would make little difference, but the New York Life, which now insists on a medical examination, claims that this has eliminated a large part of the business. Several companies indicated that they would be glad to discontinue the combination but admitted that they would still have to grant the two separate contracts to those who can pass a full examination.

Mr. McCankie suggested that dividend additions should not be granted on a life which has not given evidence of insurability but Hutcheson and Henderson claimed that the \$1,100 combination premium would cover any loss from this factor.

8. *Can we agree to further reduce commissions on single-premium insurance?*

The Equitable and Prudential have just reduced the commission on single-premium insurances to the following:

General Agent	1¼% of single premium.
	1¼% of amount of insurance.
Soliciting Agent	1% of single premium.
	1% of amount of insurance.

This apparently gives the Soliciting Agent about 4% at Age 20 graded down to 2¼% at the higher ages, with an average of somewhat less than 2½%.

On Ordinary Life single premiums the Metropolitan allows 2½% to the Soliciting Agent. The following companies pay 3%: Mutual, New York, Home, Mutual Benefit, Penn, Conn. Mutual, Phoenix, and Sun.

There was no effort to get concerted action although it was evident that those companies which are still paying 5% to the General Agent and 4% to the Soliciting Agent are somewhat high. The Travelers did not mention at the meeting that they pay even more than this on some forms.

9. *Should single premium policies be issued to corporations?*

New York Life has discontinued but no other companies showed any interest in this question.

10. *Should the cash values of single-premium insurance and single-premium annuities be applicable to optional settlements?*

Mutual Benefit excludes the first three years and the Metropolitan the first five years. The New York Life will cut out entirely in new edition of all policies.

11. *Nonparticipating Premiums.*

The Aetna and Connecticut General are waiting for further dividend cuts among the mutuals, but the Aetna would like to consider something in the spring. Travelers would like to change April 1st to 3¼% interest with a bigger loading to cover taxes. The Imperial will probably raise January 1st. The Canada will certainly raise. The Prudential of England has an extremely low non-participating rate in Canada.

Although the Sun Life did not take a position during the meeting, Mr. Bourke said that they expect to make an increase January 1st and would like to know as soon as possible if there is any probability that the three Hartford stock companies will take uniform action in the near future.

12. *Is it desirable to continue to issue Single-Premium Insurance and Annuities on the same life, without medical examination, at \$1,060 to \$1,100 per \$1,000 of insurance?*

This has already been discussed rather completely under 7.

* * * * *

When Dr. Hunter called for still further questions, Mr. Flynn suggested that each company issue only its own retention and therefore eliminate reinsurance. The general feeling, however, seemed to be that such a movement is impractical, particularly as the retention varied from \$500,000 in the Mutual to \$75,000 in the Home and even less in the United States Life.

Mr. Moir entered the meeting rather late and did not participate in the discussions although he indicated that his company would like higher nonparticipating premiums and would fall in line if the larger companies took such action.

Dr. Hunter indicated that he would be glad to call a meeting of this kind at any time if there is a request from all the companies. Several present said they thought the meetings were extremely constructive and should be continued wherever there is an action of sufficient importance. Meetings have already done much to clarify the situation on disability and cash values, annuities and settlement options.

EXHIBIT No. 767

[From files of The Mutual Life Insurance Company]

[Stamped: V. P. and Actuary, Oct. 18, 1935, W. A. Hutcheson.]

NEW YORK LIFE INSURANCE COMPANY

OFFICE OF VICE PRESIDENT AND CHIEF ACTUARY

51 Madison Avenue, Madison Square, New York, N. Y.

OCTOBER 17, 1935.

Dear Sir: I have been requested by several actuaries to call our next meeting before the date of the American Institute meeting as a number are going there and as there is a holiday in the following week. A meeting is accordingly called for Thursday, October 24th, at ten o'clock in my office.

A copy of the agenda is attached.

Yours very truly,

(Signed) ARTHUR HUNTER,
Vice-President.

Encl.

[Notation: 10-24-35.]

AGENDA

1. Should more conservative annuity rates be adopted?
2. Should Single Premium Retirement Annuities be eliminated and if so, what should take their place?
3. Should a more uniform system of Annual Premium Retirement Annuities be put into effect?
4. Is a reduction in commission rates on either Single Premium Life Insurance Policies or Immediate Annuities desirable?
5. What attitude should be taken with regard to a reduction of interest on policy loans under existing or new policies?
6. Would it be feasible to have a more uniform treatment of replaced or re-written business?
7. Any suggestions as a result of the previous meeting?

EXHIBIT No. 768

[From files of Connecticut General Life Insurance Co.]

MEETING AT DR. HUNTER'S OFFICE, OCTOBER 24, 1935

1. Should more conservative annuity rates be adopted?

Dr. Hunter reported that apparently some companies wanted to go to $3\frac{1}{4}\%$ but others to 3% . He suggested that on annuities now being purchased, there might be less selection against the companies and therefore a higher mortality. Mr. Bourke of the Sun Life, however, said that about three years ago in Great Britain when the Government refunded its obligations at a lower interest rate the Sun's annuity business increased by about 300% and that while their experience is not yet extensive, the mortality on this business has so far been extremely light, namely, 70-75% of the American Annuitants' Select Table.

I pointed out that 13 representative companies which had invested new money at a gross rate of 3.66 in the first nine months of 1934 had dropped to 3.22 gross in the first nine months of 1935.

The first informal ballot was overwhelmingly in favor of 3% with the same loading and mortality assumptions as have hitherto been used with $3\frac{1}{2}\%$. Several companies, however, felt that they could not go along on this program unless the New York Life and Equitable of New York would also go on this non-par basis or make a radical change in their participating annuities.

Apparently Hunter and Henderson were expecting a nonpar $3\frac{1}{4}\%$ rate to be adopted, and this would have enabled them to continue their 3% participating premiums. They were distinctly surprised at the landslide in favor of 3% nonpar but indicated that either the companies would be forced to abandon the participating idea and adopt the new uniform nonpar rate or possibly go participating with $2\frac{1}{2}\%$ interest assumption. On direct question, Henderson said the Equitable wouldn't continue to project the dividends on a 3.9 basis, but did not indicate what they would do.

The following companies will adopt the new 3% program on January 1st or sooner:

Aetna, Conn. General, Conn. Mutual, Home, Guardian, Mass. Mutual, Metropolitan, Mutual Benefit, Mutual Life, Penn, Prudential, Travelers.

The following will come along just as soon as they get definite assurance from the New York Life and Equitable:

John Hancock, Phoenix, Provident.

The following will probably be the last to move:

Equitable of Iowa, New England, National of Vermont.

The new program will apply to all single-premium contracts, which apparently means that other companies on January 1st or sooner will adopt the exact premiums we are already using for cash refund and installments, and that we shall simply have to make our straight-life annuity agree with these investment forms.

Cash Refund Annuities.—The Equitable has discontinued this form. The following companies are willing to discontinue:

Aetna, Home, Guardian, John Hancock, New York, Provident, Travelers, New England (?), Penn (?).

The following apparently do not issue it:

Equitable of New York, Equitable of Iowa, Mutual Benefit, Mutual Life, National of Vermont, Prudential.

The following prefer not to discontinue:

Connecticut General, Connecticut Mutual, Massachusetts Mutual, Metropolitan, Phoenix, Sun.

The following companies which now give cash values on this contract are willing to cut out cash values:

Aetna, Metropolitan, Massachusetts Mutual, Penn, Phoenix.

My notes indicate that the Prudential does not issue the contract and is willing to cut out the cash value. I am not sure whether this is an error or a typical Jimmy Little vote.

All the companies are asked to notify Dr. Hunter as to whether they are willing to withdraw this contract entirely; and if not, whether they will cut out the cash values.

The Aetna wanted to put this contract on a $2\frac{3}{4}\%$ interest basis and the National wanted to withdraw all investment annuities, continuing merely the straight-life annuity without refund, but these two suggestions did not meet favor.

Installment Annuity.—The Equitable of New York issues this contract with cash values.

Temporary Annuities.—The following companies issue these annuities in some cases with a provision that it must run for at least ten years:

Sun, Equitable of Iowa, Massachusetts Mutual, Guardian, Penn, Aetna, Mutual, Mutual Benefit, Equitable.

Each company is asked to write Hunter as to whether it will discontinue these contracts.

2. *Should Single-Premium Retirement Annuities be eliminated; and if so, what should take their place?*

The following companies now issue this form and several are unwilling to discontinue; in fact, practically all of these will continue to issue:

Connecticut General, Equitable of New York, Equitable of Iowa, Guardian, John Hancock, Massachusetts Mutual, Mutual, New York, Penn, Travelers.

The Connecticut General and Travelers are nonparticipating. The other companies are participating. The Massachusetts companies load about 10%. Some of the companies limit to a ten-year minimum deferred period. Unfortunately, there was no specific discussion about the basis for buying the annuity at maturity. Probably most of the companies do not rate down the age but perhaps some at least will rate soon, beginning to rate down in line with the proposed action on regular single-premium life annuities.

3. *Should a more uniform system of Annual Premium Retirement Annuities be put into effect?*

The following companies now purchase an annuity at 3% with true age for men and four-year differential for women:

New York, Mutual, Equitable, Home.

The Mutual Benefit assumes a reduction of about 8% in mortality, and this is apparently about equivalent in net result to what the other four companies are doing. The Prudential apparently assumes $3\frac{1}{4}\%$ at maturity, although its policy options are on a 3% basis.

Practically all the companies would like to go to 3% and in some cases with the age stepped down one year, but they hesitate to act on this until they can change the settlement options in life-insurance policies. The New England Mutual has a change now in the works.

Settlement Options in Life Insurance.—The following companies now use the American Annuity's 3% Select Table, with exact age for men and four-year differential for women:

Equitable.

Mutual.

New York.

The Aetna will go on this basis January 1st; the Connecticut General and Home are now working on a revision. The Phoenix adds 2% to the current rate for a regular life annuity and thus voluntarily is on a more conservative basis for settlement options than any other company.

The Metropolitan is working on the problem, but already has two sets of settlement options and hesitates to have a third because one man may hold three different policy editions. Mr. Cameron said he understood the Metropolitan had had a light mortality on settlement options and he thought that in looking so far ahead we should inject the forecast idea. Hunter finally agreed to compile the experience of the New York Life and some other companies in order to see what mortality is actually being experienced on settlement options. It was suggested that when this experience is available, the companies might agree on some uniform

program for settlement options on the understanding that each company will adopt this program in its next policy revision.

Practically all the companies would like to go to 3% at the next revision, but there is a good deal of uncertainty about whether to use the American Annuitants' true age or to rate down the age one or two years. Perhaps Hunter's investigation will clarify this situation.

4. *Is a reduction in commission rates on either Single Premium Life Insurance Policies or Immediate Annuities desirable?*

The Travelers now pay 6% to the soliciting agent on single-premium life insurance but will probably reduce to 3% or 4%. Other companies are now paying as follows:

Metropolitan.....	2½%	National.....	4%
Prudential.....		John Hancock.....	
Equitable of New York.....		New England.....	
Mutual.....	3%	Provident.....	
Mutual Benefit.....		Connecticut Mutual.....	
New York.....		Penn.....	
Sun.....	3½%	Massachusetts Mutual.....	4½%
Home.....		Equitable of Iowa.....	
Phoenix.....		Guardian.....	
Connecticut General.....	4%	Travelers.....	6%

The Aetna pays 5% to the general agent, who in turn pays 3%, 4%, or possibly 4½%.

Commission on Single Premium Annuities.—The National of Vermont now pays 3% to the general agent; Equitable of Iowa pays 3% to the general agent and 2½% to the soliciting agent; the Phoenix pays 2¾% to the general agent and in turn he pays 2½% to the soliciting agent.

Restrictions on Settlement Options.—A small committee of actuaries and lawyers will get together in New York to see what restrictions, if any, can be agreed upon. In the meantime the five Hartford companies will have a meeting consisting of one actuary and one lawyer from each company and then the five will send two representatives to the meeting in New York.

Replacements.—Mr. Marshall will report to Mr. Linton, who is a member of the Agency Committee on Replacements, that the actuaries are sympathetic towards any practical program for eliminating all first commission on business twisted from one company to another.

J. M. LAIRD.

OCTOBER 25, 1935.

[Notation: Mr. Howell's office.]

[Stamped: The Prudential Insurance Company of America.]

IMMEDIATE ANNUITIES

The following companies intend to put into effect at the beginning of next year or earlier new Immediate Annuity rates, nonparticipating, on the basis of the American Annuitant's Select Table (male) with 3% interest, stepped back one age for men and five ages for women:

Metropolitan.	Massachusetts Mutual.
Mutual.	Connecticut Mutual.
Travelers.	Canada Life (or a higher basis).
Aetna.	Mutual Benefit (a higher basis).
Connecticut General.	

The following will adopt with reservations:

New England Mutual, if there is any general trend in that direction.

Sun Life, anxious to adopt if 10 companies of importance in the annuity field are willing to do so.

Home Life would follow if one-half of the companies in the little Entente did so.

Guardian Life will probably follow the action of the majority of other companies.

Provident Mutual are sympathetic and would like to adopt the new basis if a substantial number of companies do so.

Prudential are waiting to know more definitely which companies will make the change indicated.

Phoenix Mutual, depends on the action of the other companies, including the two participating companies.

The John Hancock and National Life are not yet prepared to go along with the others, and the Penn Mutual has not come to any decision.

Please let me know if there is anything further that I can do to further a cooperative movement for the good of life insurance.

(Signed) A. H.

EXHIBIT No. 769

[From files of The Mutual Life Insurance Co.]

[Stamped: V. P. and Actuary, Nov. 22, 1935. W. A. Hutcheson.]

NOVEMBER 21, 1935.

RE IMMEDIATE ANNUITY RATES

Referring to my memorandum of yesterday, I have just learned that the Penn Mutual will adopt the proposed basis for Immediate Annuities (nonparticipating) on or soon after the 1st of January.

The Equitable of Iowa expect to do so as of the 1st of January or soon thereafter, if ten companies take the same action.

(Signed) A. H.

EXHIBIT No. 770

[From files of The Mutual Life Insurance Co.]

[Stamped: V. P. and Actuary, Nov. 27, 1935. W. A. Hutcheson.]

NOVEMBER 25, 1935.

IMMEDIATE ANNUITY RATES

The Mutual Life has put into effect the new nonparticipating rate for annuities as of the 28th of this month.

Mr. Tebbetts, Vice President of the New England Mutual, states: "At a conference yesterday we decided that we would plan to change annuity rates sometime around the first of the year."

The Provident Mutual have decided, on the basis of the further information contained in my recent memorandum, to adopt the proposed new Single Premium Annuity rates as soon as they can be put into effect, but not later than January 1st.

The State Mutual and the Massachusetts Mutual intend to put the new rates into effect on or before the beginning of next year.

(Signed) A. H.

EXHIBIT No. 771

[From files of Metropolitan Life Insurance Co.]

[Initialed: H. R. B. J. D. C.]

DECEMBER 2, 1935.

Immediate Annuities.

Mr. J. D. CRAIG,

*Actuary, Metropolitan Life Insurance Company,
New York.*

DEAR MR. CRAIG: The Prudential, Home Life, and Guardian have decided to adopt the new basis for Immediate Annuity rates on or before the first of January 1936.

I have been asked by four actuaries to find out whether those companies which are issuing the Cash Refund Annuity would consider the advisability of withdrawing it. Would you be good enough to let me know so that I can apprise such companies of your intentions.¹

Sincerely yours,

(Signed) ARTHUR HUNTER,

¹ Notation in margin of paragraph: "No."

EXHIBIT No. 772

[Notation: Mr. Howell's office.]

[Stamped: The Prudential Insurance Company of America.]

NEW YORK LIFE INSURANCE COMPANY

OFFICE OF VICE PRESIDENT AND CHIEF ACTUARY

51 Madison Avenue, Madison Square, New York, N. Y.

JUNE 9, 1936.

Mr. J. F. LITTLE,

*Vice President and Actuary, Prudential Insurance Company,
Newark, New Jersey.*

DEAR MR. LITTLE: The meeting to which you were invited took place this morning. On the attached memorandum you will find some of my comments.

The next meeting will be held two weeks from today, i.e., June 23rd, at ten o'clock, in my office. I am sure that the Judge will consider the meeting of sufficient importance to exempt you from service on that day.

Yours very truly,

(Signed) ARTHUR HUNTER.

Encl.

JUNE 9, 1936.

The subjects discussed were:

1. Instalment Options in the Policy:

(a) Should the option providing for leaving the proceeds on deposit have a lower guaranteed rate of interest than 3%, or would it be advisable to have no guaranteed rate but pay such rate as the Board of Directors might declare?

(b) Would it be feasible to use a lower rate of interest than 3% in determining these instalments, in view of the law in two or three states which provides that payments, other than the face, shall not be "of less value" than the face amount?

(c) Should the life element in the options providing for a specified number of years certain with continuance during the lifetime of the beneficiary be made more severe? Should it be on the basis of the nonparticipating annuity rates without a loading or should it be stepped back two ages?

2. Change in Annuity Basis:

(a) Should the nonparticipating annuity basis be made more severe or should greater restrictions as to maximum amount be put into effect?

(b) Should the companies which grant annuities with cash refund do away with them and restrict the refund to the instalment basis?

(c) Should the companies which grant the instalment refund eliminate, if they have it, the cash surrender value?

(d) Has the commission (2%) on immediate annuities been reduced to the minimum?

(e) Should the combined single premium and annuity contracts be dispensed with? The Metropolitan, Equitable, and New York Life have done so.

EXHIBIT No. 773

[From files of Metropolitan Life Insurance Co.]

APRIL 13, 1934.

IN RE INFORMAL MEETING ON SURRENDER VALUES

At the meeting held Thursday, April 12th, in Mr. Hunter's Office, the following were present:

New York Life—Hunter.

Equitable—Henderson.

Provident Mutual—Linton, Marshall.

Connecticut General—Laird.

Travelers—Flynn.

Sun Life—Bourke.

Union Central—Carrington.

Connecticut Mutual—Rice.

Massachusetts Mutual—A. T. Maclean.

Aetna—Cammack.

Equitable of Iowa—McCankie.

Penn Mutual—Perrin.

John Hancock—Howe.
Metropolitan—Bassford.
Phoenix Mutual—Larus.
United States Life—Moir.
Mutual—Hutcheson.
Prudential—Little.

The first question raised was the question of including a provision in the policy for giving the company the right to postpone the payment of cash and loan values for a period of at least six months except in the case of a loan for the payment of premium. Practically all of the participating companies agreed that they would include such a provision where the State permitted it. Some thought that there might be difficulty in including such a provision in Kentucky, Oregon, and Massachusetts and Minnesota. The nonparticipating companies preferred to keep their provision at three months, since they were planning to pay much lower surrender values than the participating companies.

The nonparticipating companies [except ?] will probably include a schedule of surrender values under which a charge of \$25 per 1,000 is made for all durations up to and including 18 years. In the 19th year the surrender charge will be \$12.50 per 1,000 and thereafter no surrender charge. I believe their second-year value will follow the originally proposed rule which bases it on the third-year value.

The next question raised was the adoption of a schedule [of surcharges] similar to that proposed by Mr. Henderson for policies issued on and after January 1, 1935. The following companies thought they would adopt such a scale at that time: New York Life, Mutual, Equitable of New York, Metropolitan, Travelers, Prudential; Aetna, Connecticut General, Sun Life, Canada Life [?] thought their scale would be somewhat more severe. The Metropolitan stated they would adopt a similar scale without taking account of the provision based on the Missouri Law that the Whole Life values might be slightly more liberal. The Union Central thought they would adopt a similar scale a little later.

The following companies felt that they could not change their surrender values by that time. Most of them would probably reduce their values sometime later. The Provident Mutual, Connecticut Mutual, Massachusetts Mutual, Penn Mutual, John Hancock, Phoenix Mutual, Northwestern Mutual (by letter), and New England Mutual (by letter). For the small companies Mr. Moir stated that his company had adopted surrender values with rather high surrender charges. The surrender charges running for 20 years with a maximum of \$24.50 and a minimum of \$12.50, or 80% of the premium, whichever was greater. Mr. McCankie, of the Equitable of Iowa, thought that most western companies would probably adopt schedules showing lower surrender values reasonably soon.

The next question raised was the second-year value. Most companies preferred a formula which would be based upon a minimum charge regardless of plan but which would give no values or very small values to Whole Life Policies and 20 Payment Life Policies. The New York Life favored third-year values for all policies, the Mutual will continue to limit values to third year, Equitable will probably adopt the Henderson formula with an increase by probably \$10 per 1,000. No expression of opinion was taken on this question.

The next question raised was the question of a deferring clause in the optional modes of settlement. The Massachusetts Mutual, Connecticut Mutual, Provident Mutual, and some other companies have a limiting clause on these options. One suggestion was the six month's clause with a maximum withdrawal of 20% of the face amount in any six month's period. This seems like a good idea, but probably it should be included in the supplementary contract and not necessarily in the policy.

The question of interest paid on death claims was discussed, and it was found that a number of companies paid such interest. Practically every company agreed that no provision should be included in the policy, and the general agreement seemed to be that the practice should fix a minimum period such as we have beyond which the interest was paid.

ANNUITY RATES

For single-premium immediate annuities there was general consensus of opinion that current rates are too low. Most of the companies felt that a safer basis would be the American Annuity Select Table step back as present; interest $3\frac{1}{2}\%$, loaded 6.5% of gross. A few companies leaned toward a 3% rate. The New York Life, Equitable, Connecticut General, Travelers, Prudential, Metropolitan, Mutual, Massachusetts Mutual, Aetna, Union Central, Provident Mutual

thought that they probably would adopt a schedule like the above [which] by January 1, 1935. Sun Life would adopt a similar schedule based on the Canadian table. The John Hancock, Penn Mutual, and Connecticut Mutual were doubtful that they would change by the end of the year, since they had only recently changed their present rates.

For the Retirement Deferred Annuity the general consensus of opinion was that the $3\frac{1}{2}\%$ rates were not at present safe. Most companies favored the 3% interest rate during the accumulation period, with annuities based upon the American Annuity Select Table 3% interest without step back in age, interest after retirement also 3% but participating during a certain period. The Provident Mutual, Equitable, Mutual, John Hancock, New York Life, Sun Life (with table reservation), Massachusetts Mutual, Phoenix Mutual, and Aetna (Participating) would probably adopt the above schedule either January 1, 1935, or soon thereafter. The Union Central probably would not change, the Penn Mutual was doubtful, and the Phoenix Mutual would express no opinion, as they claim their contract is different from these others. The nonparticipating companies would probably change their interest rate to 3.5%.

No statements were made about the loading formula for this policy nor for the cash-surrender values or death benefit. They are all to report to the Metropolitan their present basis of loading and basis of surrender values, and we are to summarize the answers and report to those present. There was a suggestion that the surrender values be paid only in instalments similar to the Travelers practice and there was much favorable comment upon this practice. Most companies favored a provision that the cash value be paid in instalments extending at least two years where surrender values were, say, at least \$200.

OPTIONAL MODES OF SETTLEMENT

Practically all companies agreed that the optional modes of settlement should be based upon the American Annuity Select Table, valuation interest rate both for certain period and deferred annuity, no step back for ages and without loading [Endowment?] annuity to be participating during certain period. The basis here should probably be the same as for the Retirement Deferred Annuity after retirement.

NOTE.—Penciled notations enclosed in brackets.

EXHIBIT No. 774

[From files of Metropolitan Life Insurance Co.]

HORACE R. BASSFORD
Actuary

METROPOLITAN LIFE INSURANCE COMPANY,
New York City, March 4, 1938.

For your information, we have prepared the enclosed summary of the replies received to the subcommittee's questionnaire in regard to the adoption of new annuity and settlement option rates based on the 1938 Standard Annuity Table. Please bear in mind that this information is highly confidential and advise the undersigned if we have not properly stated your attitude toward the adoption of new rates.

While some requests have been made for an early meeting, the general feeling inclines toward deferring the conference until the situation with regard to the New York code and other legislation affecting policy forms is more definitely known. Dr. Hunter will accordingly advise you as to the most suitable time for a meeting which will probably be some time in April, with a view of reaching a definite recommendation by the time of the Actuarial Society's Meeting.

Very truly yours,

H. R. BASSFORD,
Chairman Subcommittee.

SUMMARY OF REPLIES TO THE SUBCOMMITTEE'S QUESTIONNAIRE REGARDING ADOPTION OF ANNUITY RATES BASED ON THE 1938 STANDARD ANNUITY TABLE

1. The following 14 companies appear to be willing to adopt new individual annuity rates as of July 1, 1938, or sooner provided a large number of companies do so. While most of these companies have not decided upon the basis of their new rates, it appears as if the 1938 Standard Annuity Table at 3% and a loading of 6½% of the gross would generally be acceptable for nonparticipating immediate annuity rates.

Company	Comment on date of adoption	Tentative comment on rate basis
Aetna.....	Earliest possible date.....	1938 Std. Annuity Table rate of interest and loading generally agreed upon.
Berkshire.....	Not earlier than July 1, 1938.....	1938 Std. Annuity Table 3% loading 6½% gross (nonpar.).
Conn. General.....	Before January 1, 1939, if new immediate annuity rates are generally adopted.	
Conn. Mutual.....	Promptly for immediate annuities.	
Fidelity Mutual.....	At same time as other companies.	
Home Life.....	Promptly, at same time as other companies.	1938 Std. Annuity Table 3% loading 6½% gross (nonpar.).
John Hancock.....	Before Oct. 1, 1938, if new rates are generally adopted.	1938 Std. Annuity Table 3% loading 6½% gross (nonpar.). Will consider higher loading.
National (Vt.).....	Early action desired.....	1938 Std. Annuity Table 3% loading 6½% gross (nonpar.).
New England.....	At same time as other companies.	1938 Std. Annuity Table 3% loading 6½% gross (nonpar.).
New York Life.....	At same time as other companies.	1938 Std. Annuity Table set back two years 3% and loading 7½% gross (participating).
Penn Mutual.....	At same time as other companies.	
State Mutual.....	Before Jan. 1, 1939, as soon as other companies.	1938 Std. Annuity Table 3% loading 6½% gross (nonpar.).
Sun Life.....	At any time agreed upon by the Committee.	1938 Std. Annuity Table 3% (or lower interest rate) loading 6½% gross (nonpar.).
Travelers.....	July 1, 1938.....	1938 Std. Annuity Table 3% loading 6½% gross (nonpar.).

2. The following 7 companies would prefer to adopt new individual annuity rates as of January 1, 1939. Most of these companies have tentatively decided upon the 1938 Standard Annuity Table at 3% and a loading of 6½% of the gross as a basis for nonparticipating immediate annuity rates.

Company	Comment on date of adoption	Tentative comment on rate basis
Mass. Mutual.....	Will consider earlier action if most companies adopt new rates.	1938 Std. Annuity Table 3% loading 6½% gross (nonpar.).
Metropolitan.....	Will consider earlier action if most companies adopt new rates.	1938 Std. Annuity Table 3% loading 6½% gross (nonpar.).
Mutual Benefit.....	Will consider earlier action if most companies adopt new rates.	
Mutual Life.....	Suggests using 1938 Std. Annuity Table set back one or two yrs. 3% loading 6½% gross (nonpar.).—if agreeable to other companies.
Northwestern.....	Will consider earlier action if most companies adopt new rates.	
Provident.....	Will consider earlier action if most companies adopt new rates.	1938 Std. Annuity Table 3% loading 6½% gross (nonpar.).
Prudential.....	Will consider earlier action if most companies adopt new rates.	1938 Std. Annuity Table 3% loading 6½% gross (nonpar.).

3. The Equitable of N. Y. is undecided as to the date or precise rate basis but is sympathetic to the adoption of new rates for annuities based on the 1938 Standard Annuity Table.

4. The following 5 companies do not contemplate changing their present rates in the near future. A comparison of the proposed rates for immediate annuities with the present rates of these five companies is attached.

Company	Comment	Present rates
Canada Life.....	Undecided—present rates not much different from proposed.	Forecast Table age set back one year, 3% and loading of 6% gross plus 10% of yearly payment—adopted December 1935.
Guardian.....	May consider change in rates if volume increases.	Am. Ann. Select Male table age set back one year for males, five for females, loading 6½% of gross—adopted Jan. 1, 1936.
Equitable, Iowa.....		Am. Ann. Select Male Table age set back one year for males, five for females, loading 6½% of gross—adopted Dec. 1935.
Imperial, Canada.....	Undecided—present rates not much different from proposed rates—all annuity business in England.	
Phoenix Mutual.....		Am. Ann. Select Male Table age set back one year for males, five for females, loading 6½% of gross—adopted Jan. 1, 1936.

Single premium for an immediate life annuity without refund of \$10 monthly (nonparticipating)

	Age 40	Age 60	Age 65	Age 70
MALES				
Current Rate:				
Canada Life.....	\$2,549.00	\$1,648.00	\$1,405.00	\$1,166.00
Equitable Iowa.....	2,438.52	1,569.48	1,344.48	1,128.60
Guardian ¹	2,439.00	1,569.00	1,344.00	1,129.00
Imperial Life ²	2,494.00	1,605.00	1,366.00	1,133.00
Phoenix Mutual.....	2,438.00	1,570.00	1,344.00	1,129.00
Proposed Rate.....	2,564.60	1,649.40	1,413.20	1,185.60
FEMALES				
Current Rate:				
Canada Life.....	2,705.00	1,895.00	1,638.00	1,369.00
Equitable Iowa.....	2,589.48	1,751.64	1,524.12	1,300.32
Guardian.....	2,589.00	1,752.00	1,524.00	1,300.00
Imperial Life ²	2,646.00	1,848.00	1,595.00	1,332.00
Phoenix Mutual.....	2,590.00	1,752.00	1,524.00	1,301.00
Proposed Rate.....	2,764.90	1,887.50	1,649.40	1,413.20

¹ Actual rate slightly different.

² Approximate rate derived from monthly income rate.

EXHIBIT No. 775

[From files of Metropolitan Life Insurance Co.]

APRIL 22, 1938.

REPORT OF MEETING HELD APRIL 22, 1938

There were twenty-five companies represented at the meeting as follows:

Mutual—Hutcheson.
Connecticut General—Laird.
Aetna—Cammack.
Penn Mutual—Perrin.
Northwestern Mutual—Fassal (not voting authoritatively).
Union Central—Hardcastle.
New England Mutual—Tebbetts.
Sun Life—Bourke.
National—Jackson.
Connecticut Mutual—Rice.
Provident—Marshall.
John Hancock—Grout.
Berkshire—?

Travelers—Hoskins.
State Mutual—Guest.
Mass. Mutual—Peirce.
Home Life—Cameron.
Mutual Benefit—Rhodes.
Prudential—Howell.
Fidelity—Hurd.
Phoenix—Larus.
Guardian—Barnsley.
Equitable—Murphy.
New York Life—Hunter and Macfarlane.
Metropolitan—Bassford.

The companies expressed their opinion as to what they might do with regard to the various questions discussed below.

1. *Loan Interest Rate—4.8% in Advance.*—The Home Life, Guardian, and Travelers were seriously considering adopting the loan interest rate on this basis. All other companies were planning to use 5% in arrears.

All companies except the Mutual Benefit expected to adopt the 5% interest rate in all States in the United States where they do business; the Mutual Benefit will probably use it for New York only and may possibly apply it to old policies.

All United States companies present who did business in Canada stated that they would charge the same rate in Canada as in the United States. These companies were the Prudential, Travelers, Aetna, New York Life, and Metropolitan. The Sun Life expressed some concern at this because the Canadian companies felt that it would force them to a 5% basis in Canada and stated that only a few weeks ago the Parliament had approved substantially higher rates for small loans for banks which average about \$150 with an interest rate of 7% plus a service charge. The insurance companies felt that this would make their position stronger about policy loan interest rates at 6%.

The Prudential was planning to increase premiums about 2% on policies which provide for 5%-loan rates. Several other companies expressed the opinion that they might increase surrender charges on these policies. These were chiefly the companies who had relatively low surrender charges. The Guardian and Phoenix were particularly interested in increased values and the Provident Mutual, Connecticut Mutual, Penn Mutual, and Northwestern Mutual thought they might give it serious consideration. Neither the New England Mutual nor the Mutual Benefit joined in this opinion. Messrs. Marshall and Larus were appointed a committee of two to keep in touch with the other companies.

2. *Option 1 (Interest).*—There was a great deal of discussion about reducing the interest rate below 3%, particularly on any policy which gave any withdrawal privilege whether in whole or in part. No poll of companies was taken on this question but the poll was taken as to the companies interested in a rate lower than 3% or at no guaranteed rate. The Equitable, Fidelity, Home, Sun, and Mutual favored a policy which did not express any rate.

The following companies were strongly in favor of going below 3%: Connecticut General, Aetna, Penn Mutual, Union Central, Provident Mutual, Mutual, Connecticut Mutual, Mass. Mutual, Home Life, Prudential, Fidelity, and Phoenix. The following were inclined that way and would probably adopt it if there was a general adoption: New England, Sun Life, State Mutual, and John Hancock. The following wished to continue the 3% rate: Metropolitan, Northwestern, National, Berkshire, and Mutual Benefit. The following two companies would like to adopt a rate lower than 3% for an option which permitted withdrawal: Guardian and Equitable.

The Travelers does not have Optional Modes of Settlement.

3. *Option 2 (Instalment Benefits).*—The following companies favored a rate less than 3%: Mutual, Phoenix, Aetna, Provident Mutual, Union Central, New York Life, Mass. Mutual, Phoenix Mutual. Doubtful but leaning that way: New England, Guardian, Sun, and Equitable.

The question was asked if any company favored going down to a limit of twenty years under this option. No one favored going down.

4. *Option 3 (Life Income).*—The question was asked—what companies were willing to adopt income no lower than by the 1938 Standard Table with 3% interest throughout. All companies voted in favor of doing this except the Guardian and Mutual Benefit. The Guardian have recently adopted lower income under Option 3 and do not want to change again. Likewise, the Mutual Benefit has adopted the American Annuity Table set back 3 years for males and 7 years for females, 3% interest for certain part, 3½% interest thereafter. They wish to continue this benefit.

The next question asked was—what companies would favor a rate lower than the 1938 Standard Table and only 3 companies expressed a real desire to adopt rates on a lower basis: the Mutual, Phoenix, and New York Life. I stated that we would go along if a large enough group of companies did it. Apparently the companies do not plan to go beyond this.

While this was further discussed under the rates for immediate annuities and there was a further expression of a desire to be more conservative, it is very improbable that a large number of companies will want to adopt rates less liberal than that mentioned.

5. *Participating Annuities.*—Three companies—Equitable, New York Life, and Union Central—write participating Immediate Annuities. The Equitable and

New York Life stated that they probably would adopt the 1938 Standard Table set back two years for males, seven years for females, loading $7\frac{1}{2}\%$ of gross premium, interest rate 3%. The Union Central did not state what table they would adopt.

Nonparticipating Companies.—There was some discussion as to whether or not the rates in the Committee report, that is, 1938 Standard Table 3% with 6.5% loading, was satisfactory. All companies stated that their companies would adopt rates at least as severe as that basis. The Connecticut Mutual said they would adopt them for Life Annuities but that the age should be set forward one year for annuities, with guaranteed minimum return. There was about an equal division between those wanting to use set back in mortality rate and those wishing to increase the loading. The companies are to report to Mr. Hunter as to what their preference is after giving the matter further consideration. The following companies strongly favored a more severe basis than that proposed: New England, Sun Life, Travelers, State Mutual, Mass. Mutual, Home Life, Mutual Benefit, Phoenix Mutual.¹

In view of the fact that it is very probable that most companies will adopt the 1938 Standard Table for Life Income Options without set back it seems a little inconsistent to set back the table for Immediate Annuities. On the other hand, if the loading is increased it makes a wider distinction between Option 3 benefits (under Life Income) and Option 4 benefits (other annuities at net rates) under our contracts. Probably the cost of the annuity options under insurance policies will show a more favorable experience than Immediate Annuities. Some distinction should be made in the rates. Because of the need for a larger margin in the early years because of selection, probably an increased loading for annuities would be more satisfactory. If, however, the loading is increased, then probably we should consider the question of having a small loading on Option 4 benefits. I doubt very much if there is a difference of even 6.5% in the cost of these benefits.

It is my suggestion that we report to Mr. Hunter that we favor increasing the loading to 7.5% for Immediate Annuities.

The next question asked was the probable date of adoption of the Immediate Annuity rates. Practically all companies favored the adoption of the new annuity rates by July 1st. In our previous discussion of this question we decided to wait until January 1, 1939. If, however, a very large proportion of companies would be willing to put the rates in effect by July 1st, I would favor doing so. There is a big advantage in adopting the new rates without any long advanced announcement of their adoption and if other companies adopted their rates by July 1st this might make the situation more difficult for us. I believe this will also be more satisfactory for the companies doing Group Annuity business as they are anxious to adopt rates very quickly.

Most companies were planning to use the same basis of annuities for their Retirement Income Policies. There was some discussion about discontinuance of these policies and most companies expressed a desire to discontinue them. The Equitable, however, felt that it would be practically impossible to discontinue them for agency reasons as a very large proportion of their agents' earnings come from writing these policies.

At the present time only five of the companies write a Single Premium Retirement Income Policy, as follows: Connecticut General, Guardian, Travelers, Berkshire, and John Hancock.

Only four companies do not write Retirement Income Policies, as follows: Northwestern, Mutual Benefit, Phoenix, and Metropolitan. Most companies expressed an interest in writing a straight Deferred Annuity with Guaranteed Minimum Return similar to the one issued by the Metropolitan. At present only the Mutual Benefit and Metropolitan write this and I explained that we do not write very many contracts.

Question 6.—Practically all companies stated that they would adopt the same Optional Modes of Settlement for use with a Retirement Income Policy; that is, on a policy which carried \$1,000 of life insurance and \$10 of monthly income, commencing at ages 55, 60, and 65. The Guardian and Travelers were both doubtful as to whether they would adopt the new basis.

Note.—The Guardian does not plan to use the new basis for their options in regular policies.

Question 7—Double Indemnity.—Both the Mutual Life and Equitable expressed doubt as to the advisability of continuing to issue the Double Indemnity Provision. Apparently they were the only companies who favored discontinuing the benefit. Mr. Hunter had a considerable amount of information, indicating that they had little legal difficulty, and their Legal Division expressed the opinion that

¹ Notation in margin of paragraph: "Mutual."

there was not much to fear. This agrees with the opinion expressed both by Mr. Bates and Mr. LaMort. Apparently there is no present indication of discontinuing the Double Indemnity Benefit.

The discussion of the Double Indemnity Provision brought out that one company (the Prudential) offered their benefit for life, that another company granted a benefit to age 70, 16 companies to age 65, and 6 companies to age 60. Of the companies who had a benefit extending beyond age 60, only the New York Life, Equitable, Guardian, Mutual, and Union Central expressed the opinion that they might reduce the age to 60. This question was discussed by our company in 1934 and we decided against doing it. There are some advantages since the Waiver of Premium Benefit stops at age 60 and it would seem more consistent to limit the Double Indemnity Benefit to the same age. Likewise, Mr. LaMont expressed the opinion that most of the legal difficulty under the accident benefits occurs at the older ages and if we find that the rate is substantially increasing, we might consider the reduction. Our experience to date does not indicate that there is a need for any such action, particularly on Ordinary policies. While we have very little experience for ages over 60, the actual to expected, based upon our own table for the years 1931 to 1936, is less than 50%. This is based on total death claims of just under \$100,000. The experience in the Intermediate is somewhat worse but the exposures are extremely small.

HRB:LR

Actuary.

EXHIBIT No. 776

[From files of Metropolitan Life Insurance Co.]

[Stamped: Please return to file in actuary's office. File No. 1005.]

NEW YORK LIFE INSURANCE COMPANY

OFFICE OF VICE PRESIDENT AND CHIEF ACTUARY

51 Madison Avenue, Madison Square, New York, N. Y.

Confidential.

JUNE 3, 1938.

I have received information with regard to the final decision in connection with the new basis for Immediate Annuities. The following companies will adopt for nonparticipating annuities the Standard Mortality Table for 1938 stepped down one year for men and six years for women with 3% interest and 6½% loading on the gross rate, effective on the first of July, with the exceptions noted.

Aetna.
Berkshire.
Connecticut General.
Fidelity Mutual.
Guardian.
Home Life.
John Hancock.
Massachusetts Mutual.
Metropolitan.

Mutual Benefit.
New England Mutual.
Penn Mutual.
Phoenix Mutual.
Provident Mutual.
Prudential.
State Mutual.
Travelers.

Equitable Life of Iowa—Date not determined.

Mutual Life—"Calculating rates on the above basis and anticipate they will be adopted by the Trustees at an early date for use on July 1st."

Northwestern Mutual—With 7½% loading on gross, probably effective September 1st.

Connecticut Mutual—But on refund annuities probably the Standard Table without set-back with a higher loading than 6½%.

The National Life has not yet decided the matter.

I anticipate that the Canadian companies doing business in the United States will use the same or an equivalent basis for their business in this country.

The Equitable of New York will probably adopt for their participating basis the Standard Mortality Table for 1938 stepped back two years for men and seven years for women with 3% interest and 7½% loading. The New York Life will probably adopt the same basis but with 2½% interest.

I have not yet heard from the Union Central or the Bankers Life of Iowa, which issue participating annuities.

Sincerely yours,

(Signed) ARTHUR HUNTER,
Vice President.

EXHIBIT No. 777

[From files of Connecticut General Life Insurance Co.]

AETNA LIFE INSURANCE COMPANY,
Hartford, Connecticut, October 22, 1934.

Commissions on Single Premium Annuities.

Mr. J. M. LAIRD,

*Vice President, Connecticut General Life Ins. Co.,
Hartford, Connecticut.*

DEAR MR. LAIRD. I was sorry that I was not present at the meeting last week in Washington when there was a discussion upon commissions on Single Premium Annuities. As I understand it, nearly all the large companies are willing to reduce the commission to 2% to the soliciting agent with one-half of 1% overriding commission for the General Agent if this scale is generally adopted.

We expect to go along with the majority of the companies and certainly will if the Travelers and Connecticut General fall in line.

We should like to make the change effective on the first of January.

Yours very truly,

(Signed) E. E. CAMMACK,
Vice President and Actuary.

E. E. Cammack.

JRF.

EXHIBIT No. 778

[From files of Aetna Life Insurance Co.]

MEETING OF TRAVELERS, CONNECTICUT GENERAL, AND AETNA AT THE AETNA
LIFE INSURANCE COMPANY, 10 A. M., FRIDAY, MAY 13

IMMEDIATE ANNUITIES

We agreed to base our new annuity rates on the new standard annuity mortality table with 3% interest and 6½% loading.

All three companies preferred and would adopt a more conservative basis if the large companies will do so—namely, the same formula as above but with the age set back one year.

If the companies will not agree to setting back the age one year, we would prefer and would adopt the new mortality table with 3% interest and 7½% loading.

For an effective date, we will agree on as early a one as most of the large companies will agree to.

MATURITY VALUES FOR INSURANCE WITH LIFE INCOME PLANS

We want to use the same table as used for immediate annuities with 3% interest. This applies to Retirement Annuities as well.

OPTIONAL SETTLEMENTS

The Aetna Life Insurance Company would like to guarantee 2% interest on money left on deposit. The Connecticut General feels that it may guarantee a higher minimum rate on money left on deposit not subject to withdrawal.

The Aetna and Connecticut General agreed to the use of 3% in computing annuities certain but both companies would use 2% if the five large companies and a substantial number of other companies would do so.

Annuities for a Term Certain and as Long Thereafter as Annuitant Lives.—The Aetna Life and the Connecticut General agree to use the same table as selected for the calculation of immediate annuities and 3% interest. However, both companies would agree to use a more conservative mortality table if other companies generally agree to this. In other words, we would set back the age one year, or even two years, if that is what the other companies want even though this gives us a more conservative mortality basis than adopted for immediate annuities and maturity values of Insurance With Life Income and Retirement Annuity policies.

E. E. CAMMACK,
Vice President and Actuary.

MAY 13, 1938.

EXHIBIT No. 779

[From files of Connecticut General Life Insurance Co.]

[File Settlement Option Values 1937-38]

[Notation: See Mr. Hart for Correspondence with Tebbetts.]

On the afternoon of October 5, 1938, Ed Marshall and Walter Tebbetts had a meeting of about thirty companies represented by forty or fifty actuaries.

RETIREMENT ANNUITIES

The Aetna will withdraw on January 1, 1939. The following companies would like to withdraw if they will not feel too lonesome: New England, Massachusetts Mutual, New York Life, Prudential, and Union Central. About one-quarter of the companies would like to substitute a different type of contract, for instance, like the Sun Life's Pension Fund.

The Aetna will cut out dividends on the 3½% retirement annuities and will pay 2½% of the premium on the 3%. The Mutual Benefit, Phoenix, Metropolitan, and Northwestern don't issue retirement annuity.

The following companies will not withdraw: Equitable of New York, Connecticut Mutual, Travelers (Travelers are well satisfied with their contract with its seven-year instalments for cash values). The Provident will reduce dividends on retirement annuities in 1939. The Connecticut Mutual is now making a slight change in its contract and later may make a further change. The Mutual Life will continue after January 1st but adjusted to 2½% accumulation and with increasing surrender charges.

Some companies think there should be no conversion clause and some think there should be no loan values.

INSURANCE INCOME

Northwestern Mutual will adjust its first commissions. Massachusetts Mutual will adjust both first and renewal. The Home favor paying at same rate as on the corresponding endowment. New England will probably change if others do. Union Central will follow Schedule Q exactly. Mutual will pay 5% less commission and will probably have \$1,250 as the amount for each \$10. Metropolitan will partially adjust. Phoenix would like to raise to \$1,500. Provident will be \$1,200. Aetna nonpar will be \$1,000 with \$5.

The following companies favor a reduction in commissions: John Hancock, New England, and Provident. The Travelers and Connecticut General are favorable to a commission reduction but feel that it should be deferred.

RATE OF INTEREST ON POLICY LOANS

Practically all companies will make the 5% rate apply to all new policies in all states and some will use a rider or rubber stamp before January 1st.

J. M. LAIRD.

OCTOBER 10, 1938.

EXHIBIT No. 780

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Exhibit of Personal Annuities (Excluding Group Annuities) of Twenty-Six United States Companies Attending Inter-Company Conferences, and of All United States Companies

Year	Annuity Premiums Received During Year			Annual Income (to Annuitants) in Force, End of Year ¹		
	26 United States Companies ²	All United States Companies ²	Percentage Received by 26 United States Companies	26 United States Companies ²	All United States Companies ²	Percentage in Force in 26 United States Companies
1935.....	\$394,803,000	\$428,654,000	92.10	\$330,061,000	\$373,051,000	88.48
1936.....	334,367,000	359,394,000	93.04	360,634,000	409,610,000	88.04
1937.....	267,343,000	295,164,000	90.57	384,854,000	439,235,000	87.62

¹ Includes income now payable to annuitants; deferred (fully paid); and deferred (not fully paid).

² Figures rounded off to full thousands.

Source: Spectator Year Book, 1936-38, inclusive.

EXHIBIT No. 781

NEW YORK LIFE INSURANCE COMPANY

OFFICE OF VICE PRESIDENT AND CHIEF ACTUARY

51 Madison Avenue, Madison Square, New York, N. Y.

NOVEMBER 6, 1935.

Mr. J. F. LITTLE,
*Vice President and Actuary,
Prudential Insurance Company, Newark, N. J.*

DEAR MR. LITTLE: We are having a meeting with regard to Special Agreements under Settlement Options, at my office on Thursday, November 14th at 10 o'clock. There will be two representatives each from the Metropolitan, Equitable, Mutual, and New York Life. If you care to be present we shall be glad to have you, but I understood you to say that it was unlikely that you would make any change in your present liberal plans.

Yours very truly,

(Signed) ARTHUR HUNTER,
Vice President.

EXHIBIT No. 782

[Notation: Mr. Howell's office.]

[Stamped: The Prudential Insurance Company of America.]

NOVEMBER 12, 1935.

Dr. ARTHUR HUNTER,
*Vice President, New York Life Insurance Company,
51 Madison Avenue, New York City.*

DEAR DR. HUNTER: In reply to your letter of the 6th instant, we will not have a representative at the meeting in your office next Thursday, as the smaller committee will probably proceed more expeditiously.

You did not understand me rightly in supposing that we are not prepared to make any change in our present rather liberal rules. I have felt for a long time that we under the stress of competition, have become rather too liberal in two directions, first, in undertaking certain arrangements that, perhaps, we should refuse, and, second, in allowing very complicated and intricate settlements, some of which have already come through to the Claims department and had that department very much concerned as to just what the complicated settlement really meant.

If some reasonable rules as to what may and may not be allowed can be adopted generally, we shall be glad to go along. We have already in some cases refused to adopt complicated arrangements that we felt would cause difficulty and possibly legal action, but we still do allow arrangements that are quite troublesome to handle when death occurs. A general understanding to refuse to allow complex settlements would probably be helpful.

Very truly yours,

Vice President and Actuary

[Notation: Little.]

EXHIBIT No. 783

[From files of Connecticut General Life Insurance Co.]

[File Settlement Options & Trust Agreement]

MEMORANDUM OF MEETING HELD AT THE OFFICE OF DR. ARTHUR HUNTER,
VICE PRESIDENT AND ACTUARY OF THE NEW YORK LIFE, ON NOVEMBER 14
[1935]

There were present Messrs. Hunter and Kramer of the New York Life, Messrs. Murphy and Schelker of the Equitable, Messrs. Craig and Keyes of the Metropolitan, Mr. Strong of the Mutual Life, Mr. Percy Evans of the Northwestern, and Messrs. Laird and Yost representing the Hartford companies.

Dr. Hunter explained that he had called the meeting for the purpose of having an informal discussion concerning ways and means of simplifying the optional settlement agreements with a view of cutting the expense of preparation and

administration of these agreements and, if possible, of placing some limitations on the period during which income would be payable. With that in view he presented certain specific problems for discussion.

1. Would the companies present be inclined to eliminate a provision transferring income to other beneficiaries upon the remarriage of the insured's widow?

[Yes.]*

All the companies present expressed a willingness to eliminate this clause, which most of them are putting into their agreements at the present time under protest. The New York Life will eliminate it whether the others do or not.

2. Should interest be made payable to children unborn at the time of the making of the agreement?

[Yes.]*

The New York companies are generally providing for such payments. The Equitable, Metropolitan, and the Mutual provide for payments to children who are living at the death of the insured and thereafter to grandchildren at age 21. The New York Life would be inclined to eliminate payments of income to children unborn at the time of the making of the agreement. The other companies expressed no opinion on this.

The discussion showed that the New York companies are observing the New York Rule against Perpetuities in New York State, but on contracts issued outside of the state the common-law rule, with modifications, in the few states which have statutes is being followed. The companies assume that the rule speaks as of the date of the death of the insured and that in New York the insured's life is not counted. Dr. Hunter expressed the hope that the New York Rule might be used even outside of New York State.

3. Should the principal sum be held until the death of the survivor of a group of beneficiaries, such as children, interest being payable in the meantime to successive beneficiaries; i. e., if a child dies should interest be continued to his children until the death of the survivor of the original group of children?

[Interest to wife & one child, then stop (on each piece).]*

[Interest to (no wife) one child, then stop.]*

[No. But if the installment option continue installment to surviving children until exhausted.]*

The Equitable and Metropolitan write such agreements outside of New York State. The Metropolitan and New York Life expressed a willingness to insist that at the death of a child its share should be distributed. Mr. Strong indicated that he would be personally favorable to such a change.

4. Would the companies be favorable toward providing that after interest had been paid to two successive beneficiaries any further payments must be on an option with decreasing principal?

[Yes.]*

[I would prefer a lump sum.]*

[Old or young.]*

The Equitable and Mutual indicated that they were rather tied up on this point by the provisions of their options at settlement as they appear in their policies. Other companies were favorable to the suggestion.

5. After interest has been paid to a wife and then to a child, may the third beneficiary, or any final beneficiary under such conditions, be permitted to elect an annuity option?

[Not troublesome with us. Will follow majority.]*

The Mutual and the Metropolitan do not permit such an election. Other companies did not express an opinion.

6. Should payments of income [Principal Sum?]* be made payable upon request to [an individual or a bank as a trustee? Would guardian of minor have precedence over a trustee?]*

[No.]*

The New York Life will not include such a provision. The Metropolitan and Equitable policies do not permit them to make such payments. The Mutual Life will permit such a provision if the trust agreement is satisfactory and will also agree to make payments to a member of the family as trustee for a minor child without inquiring as to whether there is a trust agreement.

Several of the companies objected to giving assignees the right to elect to have payments of the proceeds of policies made under the options at settlement. Some of the companies, however, are apparently obliged to do so under the terms of their policy contracts.

*In pencil on original document.

7. Should the options at settlement be written in favor of a corporation? [Hospitals, Institutions?]*

[No.]*

Generally speaking, the New York companies do not write such policies. The Mutual, however, will permit payments under its options to a charitable institution for not more than twenty years at the request of the insured. It will not, however, permit a corporation beneficiary to elect the option.

Up to this time the points brought up for discussion by Dr. Hunter related solely to provisions for distribution of the proceeds of a policy under a settlement agreement. The Hartford representatives then suggested that at Hartford we had been interested in the question of whether the rate of interest guaranteed in the options could be reduced to 2½% and whether any limitation could be placed upon the right of withdrawal.

The Mutual Life indicated that they would like some modification in the guaranteed rate of interest, and Dr. Hunter suggested that he would like to limit the guarantee of interest to a period of twenty or thirty years from the date of the policy. This suggestion if carried out, however, would create difficulties in connection with the annuity options with installments certain. The discussion with regard to the guaranteed rate of interest was not carried very far, principally because the New York companies have recently made revisions of their policy forms and are not at the present time disposed to undertake another revision. In a discussion after the meeting, Mr. Murphy expressed the opinion to Mr. Laird that the real choice was between a 3% guarantee or no guarantee at all.

There was no extended discussion with regard to limiting the rights of withdrawal.

All four of the New York companies indicated that they do not generally agree to accumulate interest, except during minority, in New York State. The New York Life will do so outside of the state for not more than twenty-five years.

At the suggestion of several of the members Dr. Hunter agreed to undertake an investigation of the mortality which has been experienced under the annuity options, in order to help to determine, if possible, whether the rates under these options have been adequate.

The members present then agreed to adjourn for the purpose of giving each an opportunity to discuss with his associates in his own company the problems taken up at the meeting and to meet again at the same place on December 4 at 10 A. M., with a view perhaps of exploring the field further.

EXHIBIT No. 784

[From files of The Equitable Life Assurance Society]

[Notation: Advised Paul Taylor by telephone 5/13/37 that V. P. Murphy would be our representative. L. H. P. 5/13/37.]

[Stamped: President. May 3, 1937. Referred to ————.]

[State seal]

LOUIS H. PINK,
Superintendent.

STATE OF NEW YORK,
INSURANCE DEPARTMENT,
Albany, April 30, 1937.

THOMAS I. PARKINSON,
*President, The Equitable Life Assurance Society of the United States,
393 Seventh Avenue, New York City.*

DEAR PRESIDENT PARKINSON: The suggestion that I appoint a committee composed of representatives of the life companies and experts of our own Department to study the question of policy loans and interest on policy loans has met with general approval. The matter of the numerous options and the guaranteed rate of 3% interest has also been brought to my attention with the suggestion that the Department study the situation in the light of the preparation of the new code. Since these two subjects are closely related, I shall ask the committee to consider both.

It is my thought that the original committee should be comparatively small, and should be composed largely of technical men, and that, when some tentative recommendation has been agreed upon, we call in the executives of all of the life com-

*In pencil on original document.

panies to discuss the situation. The representatives of the Department will be Deputy Superintendent, Paul Taylor, Dillon F. Broderick, Chief of the Life Bureau, and Mr. Charles Dubuar, Actuary. Mr. Gardner, Counsel to the Department, will also give such service to this committee as may be necessary.

The following companies are requested to designate someone to form the original committee:

Metropolitan.
New York Life.
Equitable.
Mutual Life.
Home Life.
Guardian Life.

It is the understanding that this committee will be enlarged, and that all companies will be represented before any definite action is taken.

I wish to thank you for your help and co-operation in this matter.

Yours very truly,

(Signed) LOUIS H. PINK,
Superintendent of Insurance.

LHP/MTH.

[Initialed: M. A. A. McN.]

EXHIBIT No. 785

[From files of The Equitable Life Assurance Society]

[Stamped: Dept. R. D. M. Apr. 21, 1939. (Initialed: R. McN.)]

MAY 28, 1937.

REVISION OF PRACTICE ON OPTIONAL SETTLEMENTS

Report of Subcommittee Appointed at Intercompany Conference of February 16, 1937

PRESSING NEED FOR REVISION OF PRACTICE

There is a growing realization that current practices under optional settlements need revision. Many companies now desire to solve the problems of unsound practice which have been encouraged by unwise competition in the past and greatly accentuated by the conditions of the last three years. These problems arise in four directions:

1. *Guarantee of Interest Over Long Period.*—As optional settlements are frequently written to extend for a very long period after the death of the insured, there is uneasiness regarding the possible consequences of the guarantee over such an undue length of time. There is a growing sentiment to limit optional settlements to cases which do not extend the guarantee for an unreasonable time into the future.

2. *Increased Complications.*—Optional settlements have been increasing in complexity partly owing to unwise competition in the past. In one company, over one-half of the new optional agreements in 1936 were "complicated" or "very complicated," and only 21% of them "simple." In the home offices the work involved in preparing these complex agreements is becoming unsatisfactorily heavy with a prospect of continued increase. Their administration will ultimately throw an undue burden of work and expense on the companies in keeping track of the various beneficiaries and their shifting rights under the agreements. Trust companies would charge a very substantial fee for this sort of service. Settlement options can be kept much simpler than at present without interfering with the sale of life insurance, provided unsound competition in complicated options is eliminated by proper restrictions.

3. *Life Income Option.*—The recent experience of several companies has revealed that the death rate among beneficiaries under the life income option is much less than was anticipated when the guarantees in the present policies were fixed. This will necessitate a revision of new policies to place the income option on a self-supporting basis. It also makes it important to limit the use of this option in new agreements under outstanding contracts to situations which will not intensify the antiselection.

4. *Great Increase in Volume.*—Owing to general investment conditions and the difficulty of investing funds elsewhere, optional settlements have greatly increased. Funds currently left with the companies under these settlements vary from about

30% to 50% of the sum of all current death claims and matured endowments. The "consideration for supplementary contracts" received during 1936 varied from 22% to 39% of the entire increase in ledger assets during the year. The new optional settlement agreements have also increased by leaps and bounds. Thus the problems connected with these settlements are becoming very urgent from a practical viewpoint.

In order to solve these problems two immediate steps can be taken by companies:

a. Wherever the policy provisions permit, revise at once the practice under new agreements on all contracts to conform to the rules recommended below. In this way much progress toward solution of the problems can be made without delay.

b. Where provisions in new policies are inconsistent with these rules, revise the policies accordingly at an early date.

In framing these rules our subcommittee has continually borne in mind that optional settlements are of great importance to policyholders and beneficiaries in programming and to agents in the sale of life insurance. We would not wish to impose unnecessary limitations on a legitimate use of settlement options in connection with sound programming. However, in recent years the practice under options has gone far beyond this reasonable standard. Thus we believe the following changes recommended are greatly to be desired as an approach to a solution of the problems involved. These revisions represent the *minimum* limitations on optional settlements. Many companies will doubtless wish to go further in their restrictions than indicated.

RECOMMENDATIONS FOR REVISED PRACTICE UNDER NEW OPTIONAL AGREEMENTS ON BOTH NEW AND OUTSTANDING BUSINESS

1. When a settlement agreement provides for a mode of settlement for secondary beneficiaries following a primary beneficiary no share of a secondary beneficiary shall be settled in other manner than by payment in one sum upon the death of such secondary beneficiary.

Comment: Extensions beyond the suggested rule have led not only to complications in drafting clauses but also to a continuance of guarantees to an unreasonable extent. The above rule permits service as broad (two lives in being) as can be given in compliance with the laws of all states on a uniform basis. Companies have in the past commonly varied their practice depending upon the law of the state in which the business was written, as the state in which a company is incorporated does not control its operations in this respect in other states.

It is possible that, to circumvent this rule, request might be made for an additional provision in the agreement to the effect that if the primary beneficiary is deceased at the insured's death, the income shall be continued to a third beneficiary. Such a provision would greatly increase the length and complexity of settlement agreements and should be refused as inconsistent with the spirit of the above rule. If the primary beneficiary should die during the insured's lifetime he can easily revise the agreement to include this third beneficiary if he then desires.

2. Where the settlement is elected by the primary beneficiary, and not the insured, no secondary beneficiary shall receive other than a lump sum at the death of the primary beneficiary.

Comment: The companies owe no obligation to set up an elaborate estate structure for the beneficiary, with resulting extension of guarantees, if the insured had not considered it worthwhile to do so.

3. No provision shall be made for accumulating interest except during the minority of the beneficiary.

Comment: Other accumulations cannot be enforced and provision for them is therefore undesirable.

4. The insured shall not be allowed to provide that a beneficiary shall have the right to elect a life income settlement of a guaranteed amount in lieu of a different settlement, if such right to elect would extend beyond one year from the insured's death. If the insured makes no provision for a mode of settlement, the beneficiary should not be given the right to choose a life income settlement of a guaranteed amount later than one year from the insured's death.

Comment: The right to elect such conversions of the proceeds intensifies the selection against the company under life income settlements. The mortality under such settlements in the future is too uncertain to warrant an extended right of this kind. Possibly most companies will wish to go further than the

rule suggests and grant no extension of such a right, or at best for only a few months. When the insured has made no provision, it would seem reasonable to permit a beneficiary a short time to reach a decision following the insured's death.

It should be noted that this rule prevents an extended period for election of the life income option. It does not prevent automatic and obligatory conversion of the proceeds to a life income at any time after the insured's death, provided the beneficiary has no right to withdraw.

5. If a primary beneficiary is living at the death of the insured, a secondary beneficiary should not be given the right to select a mode of settlement for any of the proceeds.

Comment: In such circumstances the reservation of such a right involves additional complexity in drafting clauses and goes beyond a reasonable use of the company's facilities to protect beneficiaries. Every right to alter the mode of settlement permits selection against the company on financial grounds and should not be permitted to be so far reaching as such a right to a secondary beneficiary would be.

It should be noted that some companies may wish to permit exceptions for so-called "educational funds" where the alteration in the option is to permit the funds to be drawn over the proper school period.

6. When the proceeds are to be left at interest for a primary beneficiary, they shall not be continued at interest for a secondary beneficiary unless the primary beneficiary dies within 30 years from the death of the insured, and then only for the balance of such 30-year period. If the secondary beneficiary is to receive under the mode of settlement providing instalments of fixed amount, such amount should be at least at the rate of 6% of the principal sum.

Comment: It is realized that the right to leave the principal at a guaranteed interest rate of 3% or 3½% over a very long period affords the strongest selection against the company on financial grounds, and hence this limitation is most desirable. The above rule would permit the insured to leave the principal intact drawing interest during his wife's life and until his children are all 30 years of age or more. Some companies may wish to pay out the principal more rapidly than the above rule requires following an initial period when the principal was left at interest. Others may wish to permit the secondary beneficiary to have a life income, provided it is mandatory. The mode of settlement providing instalments of fixed amount may so nearly approach the "at interest" option, if the instalments are small enough, that the above limitation to an instalment of at least 6% of the principal sum seems necessary. This seems consistent also with the possible use of a fixed number of instalments. (See next item.)

7. The option granting a fixed number of instalments should be limited to thirty years.

Comment: It is commonly recognized as undesirable to provide too long a period of instalments, which may be continued long after the death of the primary beneficiary. A period of thirty years is liberal and consistent with the program for the other rules.

8. The proceeds of a Double Indemnity provision should be paid in cash or be settled under a mode of settlement in the same manner as the face amount of the policy. Death from accident should not affect the settlement of the face amount.

Comment: The purpose is to avoid undue complications in drafting settlement agreements or in settling claims out of proportion to the premium income for the Double Indemnity benefit. As an alternative a company might wish to use the restriction only for policies below a given amount, but the existence of several small policies in the same company or a small policy in combination with larger policies in other companies may make such an alternative troublesome in administration. It should be noted that if an instalment of 6% of the proceeds is provided, as indicated in Item 6, the provision should properly cover the possibility of a Double Indemnity claim.

9. Settlement agreements should not involve a remarriage contingency or be affected by presentation to the company of evidence of remarriage.

Comment: Companies generally have recognized inability to discover remarriage, and therefore have refused to make settlement depend upon such discovery by the company. A provision affecting the settlement upon presentation to the company of evidence of remarriage of a primary beneficiary, who will usually have possession of the supplementary contract, seems to put a secondary beneficiary in a position where the contents of the provision are unknown and usually will not be enforced in accordance with the intent of the insured. Probably most policyholders would not want the provision if they thoroughly understood the situation.

10. Under Family Income, and similar forms, provision should not be made to apply the commuted value of the benefits at the death of the insured under a mode of settlement.

Comment: These policies are intended for use where the original form of settlement fits the case. Undue complications are created by using this form in the way mentioned. This rule does not prevent applying the final face amount ultimately under a mode of settlement.

11. Provision should not be made for the payment of interest or instalments through any corporation (such as a Trust Company) or any person presumably charging a fee for receiving payments, except during the minority of the beneficiary.

Comment: This rule is essentially to protect beneficiaries, and violation of it would probably lead to ill-feeling on the part of beneficiaries.

* * *

The following rule was discussed but as the subcommittee was not unanimous it is inserted here as a supplementary rule for discussion with the whole group:

When the insured provides that a primary beneficiary is to receive a mode of settlement with the right to withdraw all or substantially all the proceeds, no provision for holding the proceeds under a mode of settlement for a secondary beneficiary shall be included.

Comment: Provision for mode of settlement for a secondary beneficiary in such a case is likely to lead to misunderstanding, disappointment and friction, and in some instances to defeat the real purposes of the insured. Settlement provisions are sometimes desired giving the primary beneficiary a right to withdraw a proportion of the proceeds or a limited amount during any interval such as a year. Many companies may wish to go further than the above wording would require and refuse to hold for a secondary beneficiary if, for example, more than some given percentage of the proceeds may be withdrawn.

REVISION OF NEW POLICY FORMS

Where the above changes in practice are inconsistent with present policy provisions, an appropriate change should be made in the new policy forms.

The mortality basis of the life income option should be changed, to be self-supporting. There will be a discussion at the meeting of the data so far prepared by the subcommittee.

STEPS IN PREPARATION FOR INTERCOMPANY CONFERENCE ON JUNE 3

This memorandum is being sent to each company to be represented at the intercompany conference of June 3. It represents what the subcommittee considers a very reasonable *minimum* set of changes required to make progress in approaching a solution of the problems now encountered in optional settlements. In preparation for this conference two important steps are suggested:

a. Progress can only be made if individual companies are willing to waive small differences in viewpoint because of the much greater advantage which will accrue to all through a sound solution of these problems.

b. At this stage it is most desirable that each representative come to the conference invested with authority to speak for his company as to its willingness to accept each of the above rules individually, provided that the great majority of the other companies are willing to do likewise.

The changes recommended are for the good of the life insurance business and the benefit of policyholders as a whole. Widely adopted, they would in our judgment have practically no effect on the sale of life insurance or the meeting of legitimate and reasonable needs of clients. Thus our subcommittee strongly recommends them for your consideration.

EXHIBIT No. 786

[From files of The Equitable Life Assurance Society]

[File 348]

[Stamped: Dept. R. D. M. Apr. 17, 1939. (Initialed: A. McN.)]

LIST OF COMPANY REPRESENTATIVES AT MEETING HELD ON JUNE 3RD IN DR. HUNTER'S OFFICE

Mr. Joseph C. Barnsley, Actuary, Guardian Life Insurance Co., 50 Union Square, New York City.

Mr. W. J. Cameron, Vice President & Actuary, Home Life Insurance Co., 256 Broadway, New York City.

Mr. F. J. Cunningham, Assistant Actuary, Sun Life Assurance Co. of Canada, Montreal, Canada.

Mr. P. H. Evans, Vice President & Actuary, Northwestern Mutual Life Insurance Co., Milwaukee, Wisconsin.

Mr. H. A. Grout, Assistant Actuary, John Hancock Mutual Life Insurance Co., Boston, Mass.

Mr. R. C. Guest, Associate Actuary, State Mutual Life Assurance Co., Worcester, Mass.

Dr. Arthur Hunter, Vice President & Chief Actuary, New York Life Insurance Co., 51 Madison Ave., New York City.

Mr. Robertson G. Hunter, Vice President & Actuary, Equitable Life Insurance Co. of Iowa, Des Moines, Iowa.

Mr. H. G. Hurd, Actuary, Fidelity Mutual Life Insurance Co., Philadelphia, Pa.

Mr. H. H. Jackson, Actuary, National Life Insurance Co., Montpelier, Vermont.

Mr. R. Keffer, Associate Actuary, Aetna Life Insurance Co., Hartford, Conn.

Mr. F. D. Kineke, Assistant Actuary, Prudential Insurance Co., Newark, N. J.

Mr. G. F. Knight, Associate Actuary, Berkshire Life Insurance Co., Pittsfield, Mass.

Mr. J. M. Laird, Vice President & Secretary, Connecticut General Life Insurance Co., Hartford, Conn.

Mr. J. R. Larus, Vice President & Actuary, Phoenix Mutual Life Insurance Co., Hartford, Conn.

Mr. R. Little, Associate Actuary, Massachusetts Mutual Life Insurance Co., Springfield, Mass.

Mr. E. W. Marshall, Vice President & Actuary, Provident Mutual Life Insurance Co., Philadelphia, Pa.

Mr. L. R. Martin, Secretary, Connecticut Mutual Life Insurance Co., Hartford, Conn.

Mr. Samuel Milligan, Second Vice President, Metropolitan Life Insurance Co., 1 Madison Ave., New York City.

Mr. R. D. Murphy, Vice President & Actuary, Equitable Life Assurance Society of U. S., 393 7th Avenue, New York City.

Mr. J. G. Parker,¹ General Manager & Actuary, Imperial Life Assurance Co., Toronto, Ontario.

Mr. O. W. Perrin, Associate Actuary, Penn. Mutual Life Insurance Co., Philadelphia, Pa.

Mr. C. O. Shepherd, Associate Actuary, The Travelers Insurance Co., Hartford, Conn.

Mr. W. M. Strong, Associate Actuary, Mutual Life Insurance Co., 32 Nassau St., New York City.

Mr. W. Tebbetts, Vice President, New England Mutual Life Insurance Co., Boston, Mass.

Mr. J. S. Thompson, Vice President & Mathematician, Mutual Benefit Life Insurance Co., Newark, N. J.

Mr. W. A. P. Wood,¹ Assistant General Manager & Actuary, Canada Life Assurance Co., Toronto, Ontario.

¹ Not present.

EXHIBIT No. 787

[From files of Connecticut General Life Insurance Co.]

[File settlement options & trust agreements]

[Notation: See memo, July , 1937, to ———.]

SUMMARY OF RECOMMENDATIONS BY SUBCOMMITTEE, HEADED BY R. D. MURPHY,
CONCERNING SETTLEMENT OPTIONS AND THE ACTIONS OF VARIOUS COMPANIES
AT THE JUNE 3 MEETING

1. The share of a secondary beneficiary following a primary beneficiary must be paid in cash at the secondary beneficiary's death. In other words stick to "two lives in being" which is all that is permitted in New York and possibly also another state or so. Mr. Laird's notes show that of the 25 companies represented at the June 3, meeting, 10 voted "~~no~~" [10 voted "yes," 3 voted "yes" with modification, 8 voted "no"] and 4 "were on the fence." Such a restriction is in accordance with our present practice and naturally O. K. with Mr. McGuire.

2. Where no provision is made by the Insured but where the primary beneficiary selects an option at the Insured's death, the secondary beneficiary must take ~~care~~ [cash] at the primary beneficiary's death, except that the balance of any instalments certain which the primary beneficiary has been receiving may be continued to the secondary beneficiary.

20 voted "yes," 4 voted "no," and 1 was "on the fence." This restriction is in accordance with our present practice and is O. K. with Mr. McGuire.

3. Interest is not to be accumulated except during the minority of the beneficiary. This, I presume, means not only a primary beneficiary, but also a secondary one.

25 voted "yes." Under our present practice we do not allow accumulation of interest even during minority and naturally such a restriction is O. K. with Mr. McGuire.

4. The Insured shall not be allowed to give the beneficiary the privilege of selecting a *guaranteed* life income except during the first year after the Insured's death. The same restriction shall also apply to the beneficiary when payment is in a lump sum and as a result if the beneficiary wishes a *guaranteed* life income it must be selected within a year of the Insured's death. It is not intended that this restriction prevent the automatic and obligatory conversion of the proceeds to a life income (I presume guaranteed), when the beneficiary has no right to withdraw. I presume therefore that an Insured can arrange for Option C for 20 years after his death or until the beneficiary has reached age 55 and then have the proceeds converted automatically into a guaranteed life income with the certain period fixed in advance by the Insured.

12 companies voted "yes," 3 voted "no," 9 were "on the fence", and 1 did not vote. Mr. McGuire does not agree with this.

I presume such a restriction might introduce optional life incomes at annuity rates in effect at the time the option is selected, less 3% or some other amount. This means a guarantee of this 3% or this some other amount which is something I am not particularly enthusiastic about.

NOTE.—Penciled notations enclosed in brackets.

5. If a primary beneficiary is living at the death of the Insured a secondary beneficiary should not be given the right to select a settlement option except in the case of funds for educational purposes.

25 companies voted "yes." Mr. McGuire does not agree with this restriction.

6. When the proceeds are left at interest for a primary beneficiary they shall not be continued at guaranteed interest or under any other form of guaranteed instalments certain for a secondary beneficiary unless the primary beneficiary dies within 30 years from the death of the Insured and then the proceeds shall only be continued at guaranteed interest or paid under any form of instalments certain for the balance of such a 30 year period. Apparently this does not prevent the proceeds at the primary beneficiary's death being applied automatically to provide a guaranteed life income for a secondary beneficiary with the certain period fixed in advance. According to Mr. Laird's notes the portion fixing instalments certain to the secondary beneficiary to at least 6% of the proceeds of the principal sum is to be left out.

Only 4 companies voted, 3 of which were "no," and the other was "on the fence." I am not exactly sure how Mr. McGuire feels about this rule. He seems to feel that it is complicated and I am inclined to agree with him. As a matter of fact, it is not too clear to me. I do feel, however, that if an Insured

takes care of a wife and then a child until some such age as 30, he has discharged his responsibility and it is up to his child, (or children), to take care of himself from then on. I remember receiving this very same advice from a man in the Trust Department of a trust company.

7. Instalments certain should not be paid over a period of more than 30 years. There was no vote on this restriction. Such a restriction is O. K. with Mr. McGuire.

8. The proceeds of a double indemnity provision shall either be paid in cash or be settled under the same options as the face amount of the policy. The alternate restriction was that this apply only to policies below \$5,000.

14 companies voted "yes," 6 voted "yes" for the alternate, 1 voted "no," 2 were "on the fence," and 2 do not write double indemnity. This restriction is O. K. with Mr. McGuire.

9. Settlement agreements should not involve a remarriage contingency or be affected by presentation to the company of evidence of marriage.

Only 2 companies voted on this. One voted "no" and the other was "on the fence." Mr. McGuire is in favor of this restriction.

10. Under Family Income and similar forms the commuted value should not be applied under settlement options. This, of course, does not prevent the application of the principal sum under settlement options at the end of the Family Income Period.

12 companies voted "yes," 10 companies voted "no," 1 company was "on the fence," 2 companies do not issue this type of insurance. Such a restriction is O. K. with Mr. McGuire.

11. Provision for payment of interest or instalments through any corporation such as a trust company or through any person, presumably charging a fee for receiving payments should not be allowed except during the minority of a beneficiary. I presume if the policy is assigned the proceeds would have to be paid to the assignee as his interest might appear.

16 voted "yes," 6 voted "no," 3 were "on the fence." I do not know whether this is O. K. with Mr. McGuire or not.

SUPPLEMENTARY

When the Insured provides that a primary beneficiary is to receive a mode of settlement with the right to withdraw all or to substantiate all of the proceeds, provision for holding the proceeds under a mode of settlement for a secondary beneficiary shall be allowed.

16 companies voted "yes," 7 companies were "on the fence," 1 did not vote. I do not know what the Northwestern voted.

Mr. McGuire has pointed out that the wording of our policy is such that to conform with restrictions 4, 5, and 6, we might be embarrassed. The wording is: "Upon written request of the then legal owner the Company will agree in writing with such owner to pay the proceeds of the policy in accordance with one or more of the following options, provided that these options shall be available only with the Company's consent if the payee is a corporation or association, if the proceeds to be retained by the Company amount to less than \$2,000, or if any instalment payment amounts to less than \$10."

E. C. HENDERSON, *Actuary.*

ECH: D.

June 10, 1937.

EXHIBIT No. 788

[From files of The Equitable Life Assurance Society]

[Notation: Dept. R. D. M. Apr. 17, 1929. (Initialed A. M. N.)]

RECOMMENDATIONS FOR REVISED PRACTICE UNDER NEW OPTIONAL AGREEMENTS ON BOTH NEW AND OUTSTANDING BUSINESS

1. When a settlement agreement provides for a mode of settlement for secondary beneficiaries following a primary beneficiary no share of a secondary beneficiary shall be settled in other manner than by payment in one sum upon the death of such secondary beneficiary.

2. Where the settlement is elected by the primary beneficiary at the death of the insured, no secondary beneficiary shall receive other than any remaining instalments certain or a lump sum at the death of the primary beneficiary.

3. No provision shall be made for accumulating interest except during the minority of the beneficiary.

4. The insured shall not be allowed to provide that a beneficiary shall have the right to elect a life income settlement of a guaranteed amount in lieu of a different settlement, if such right to elect would extend beyond one year from the insured's death. If the insured makes no provision for a mode of settlement, the beneficiary should not be given the right to choose a life income settlement of a guaranteed amount later than one year from the insured's death.

5. If a primary beneficiary is living at the death of the insured, a secondary beneficiary should not be given the right to select a mode of settlement for any of the proceeds.

6. When the proceeds are to be left at interest for a primary beneficiary, they shall not be continued at a guaranteed rate of interest or under an instalment settlement for a secondary beneficiary unless the primary beneficiary dies within 30 years from the death of the insured, and then only for the balance of such 30 year period. This does not prevent an automatic life income settlement for a secondary beneficiary.

7. The option granting a fixed number of instalments should be limited to thirty years.

8. Under a settlement agreement arranged by the insured the proceeds of a Double Indemnity provision should be paid in cash or be settled under a mode of settlement in the same manner as the face amount of the policy.

9. Settlement agreements should not involve a remarriage contingency or be affected by presentation to the company of evidence of remarriage.

10. Under Family Income, and similar forms, provision should not be made to apply the commuted value of the benefits at the death of the insured under a mode of settlement.

11. Provision should not be made for the payment of interest or instalments through any corporation (such as a Trust Company) or any person presumably charging a fee for receiving payments, except during the minority of the beneficiary.

SUPPLEMENTARY RULE

When the insured provides that a primary beneficiary is to receive a mode of settlement with the right to withdraw all or substantially all the proceeds, no provision for holding the proceeds under a mode of settlement for a secondary beneficiary shall be included.

EXHIBIT No. 789

[From files of Connecticut General Life Insurance Co.]

NEW YORK LIFE INSURANCE COMPANY

OFFICE OF VICE PRESIDENT AND CHIEF ACTUARY

51 Madison Avenue, Madison Square, New York, N. Y.

AUGUST 6, 1937.

MR. J. M. LAIRD,

Vice President and Secretary, Connecticut General Life Insurance Co.

Hartford, Conn.

DEAR MR. LAIRD: At the meeting held at my office about two months ago with regard to Special Settlement Agreements, practically all the companies stated that they intended to change their practice. If you have issued instructions to your agents on that line, I shall be glad to have a copy of the circular. You already have a copy of our procedure as outlined in my letter of last April.

Sincerely yours,

(Signed) Arthur Hunter
Vice President.

AUGUST 11, 1937.

DR. ARTHUR HUNTER,

Vice President, New York Life Insurance Company,

New York, New York.

DEAR DR. HUNTER: As you know, we are in sympathy with the movement to simplify special settlement agreements but we have not yet issued any circular to agents.

We are now working on a proposed announcement but we should like to be sure that similar action will be taken by a number of companies of about our size.

As we recently adopted more conservative settlement options in our new policies, we feel that some of the other companies in New England should take the lead in this other conservative step.

Perhaps another general meeting would clear the air and bring more concerted action.

Sincerely yours,

Vice President.

[File Settlement Options & Trust Agreements]

[Notation: See also postscript-Murphy letter 6/9.]

[Initialed: F. P. M.]

NEW YORK LIFE INSURANCE COMPANY

OFFICE OF VICE PRESIDENT AND CHIEF ACTUARY

51 Madison Avenue, Madison Square, New York, N. Y.

AUGUST 12, 1937.

Mr. JOHN M. LAIRD,

*Vice-President, Connecticut General Life Insurance Co.,
Hartford, Connecticut.*

DEAR MR. LAIRD: Your letter of the 11th instant was duly received.

It is apparent that a number of companies are slow in sending their circulars to the field, although three have told me that they have already put the rule into effect without notification of it. It may be that other companies of your size are waiting for a leader. Why don't you take that position with them?

If there were a request for another meeting I should be glad to call it, but it must be in the form of a "round robin" as there must be no implication that I am asking the other companies to pull our chestnuts out of the fire. We have taken our stand and intend to abide by it whatever other companies may do. Confidentially our leading agents realized that our action was a proper one and we are having their support, although occasionally they are finding it very tough in competition.

Yours very truly,

(Signed) ARTHUR HUNTER, *Vice-President.*

EXHIBIT No. 790

[From files of Equitable Life Assurance Society]

[Stamped: R. D. Murphy, Vice President & Actuary. Oct. 25, 1937.]

[Stamped: Dept. R. D. M. Apr. 17, 1939. (Initialed: A. McN.)]

PROVIDENT MUTUAL LIFE INSURANCE COMPANY OF PHILADELPHIA

Forty-Sixth and Market Streets

EDWARD W. MARSHALL, *Vice President and Actuary*

OCTOBER 22, 1937.

Confidential.

Mr. R. D. MURPHY,

*Vice President and Actuary, Equitable Life Assurance Society,
393 Seventh Avenue, New York City.*

DEAR MR. MURPHY: At the inter-company conference on optional settlements held at Swampscott on October 14, it was revealed that at least two more companies are about to announce rules similar to those discussed at the conference last June. Already at least six companies have adopted the rules, including the Aetna, Equitable of Iowa, Guardian, Metropolitan, New York Life and Prudential. It is becoming apparent that some such rules are desirable for the good of the business, and that it would be well for the various companies themselves to take measures to eliminate any weaknesses and dangers now inherent in optional settlement practice.

Quite a number of the representatives at the conference indicated the readiness of their respective companies to adopt the rules provided a majority of the companies of their own group did likewise. Some of them however were reluctant to

"pioneer" in the absence of definite information regarding the official attitude and intentions of other companies.

Accordingly the conference requested me to send to each of the 27 companies represented a questionnaire, the answers to which would indicate definitely the official attitude of the company on the subject, based on the decision of its interested executives. This questionnaire would be returned to me so that a summary could be made of the attitude of the individual companies and distributed at once to all the companies represented.

The conference also decided that another conference should be held on November 15 in New York City at 10:00 in Mr. Bassford's office, in order to give what was hoped would be a decisive turn to the whole subject. At that conference each company representative should be empowered to state finally the program of his company in the light of the information derived from the above-mentioned summary. It is also hoped that the subcommittee studying the basis of the life income option will then be prepared to give a conclusive report for the consideration of the entire group.

In accordance with this plan, please return one of the enclosed questionnaires to me *before November 3* in order that the compilation of the answers may be made and forwarded to you well in advance of the meeting on November 15. Your cooperation in returning the questionnaire by that date will be greatly appreciated as you can see that the compilation itself will require considerable time.

With best regards.

Sincerely yours,

(Signed) E. W. MARSHALL.
Vice President and Actuary.

EWM:AV
Enclosures.

Confidential.

QUESTIONNAIRE REGARDING REVISION OF PRACTICE UNDER NEW OPTIONAL AGREEMENTS ON BOTH NEW AND OUTSTANDING BUSINESS

Name of Company -----

The following rule numbers refer to those as revised at the intercompany conference of June 3, 1937, with rule 10 regarding family-income limitations eliminated as agreed upon. A copy of these rules is enclosed for your convenience.

Opposite each of the following numbers please state "Yes," "No," or "Modified." The answer "Yes" indicates that your company intends to adopt the given rule if at least 75% of the companies of your group* will do so. If the answer for any rule is other than "Yes" please explain in an accompanying letter. If possible, answer "Yes" without modification in order to facilitate agreement.

Rule	Attitude of Company	Rule	Attitude of Company
1	-----	6	-----
2	-----	7	-----
3	-----	8	-----
4	-----	9	-----
5	-----	11	-----
		Suppl.	-----

Date by which would intend to adopt rules labeled "Yes" -----

*State the companies you consider to be in your group for the purpose of giving the above answers.

Signature of Company Officer.

Please return this questionnaire before November 3, 1937, to E. W. Marshall, Provident Mutual Life Insurance Company, 4601 Market Street, Philadelphia, Pa.

EXHIBIT No. 791

[From files of The Equitable Life Assurance Society]

[Stamped: R. D. Murphy, Vice President & Actuary. Nov. 10, 1937.]

[Stamped: Dept. R. D. M. Apr. 17, 1939. (Initialed: A. McN.)]

[Notation: Bring up Monday 11/15 for meeting.]

PROVIDENT MUTUAL LIFE INSURANCE COMPANY OF PHILADELPHIA

Forty Sixth and Market Streets

EDWARD W. MARSHALL, *Vice President and Actuary*

NOVEMBER 9, 1937.

Mr. R. D. MURPHY,

*Vice President and Actuary, Equitable Life Assurance Society,
New York City.*

DEAR MR. MURPHY: The information received regarding the attitude of your company toward the proposed optional settlement rules has been included in a summary of the returns from the various companies enclosed herewith as promised.

As previously indicated, an intercompany conference will be held at ten o'clock on Monday, November 15, in the office of Mr. Bassford, Actuary of the Metropolitan Life Insurance Company, 1 Madison Avenue, New York City. One actuary from each company is invited to be present, as usual. It is assumed that your company will be represented, but if this should not be possible will you please wire me to facilitate arrangements for this meeting.

It is important that representatives should come to the conference empowered to state the official attitude of their respective companies in the light of the information given in the summary of the questionnaires.

Sincerely yours,

(Signed) E. W. MARSHALL,
*Vice President and Actuary.*EWM:AV
Enclosure.

EXHIBIT No. 792

[From files of E. W. Marshall, Vice President & Actuary]

Provident Mutual Life Insurance Company of Philadelphia

PROVIDENT MUTUAL LIFE INSURANCE COMPANY OF PHILADELPHIA

Forty Sixth and Market Streets

EDWARD W. MARSHALL, *Vice President and Actuary*

NOVEMBER 19, 1937.

Enclosed is a copy of the amended rules regarding optional-settlement practice and a sheet setting forth the attitude of the various companies toward these rules as stated at the intercompany conference of November 15.

In case there are any inaccuracies in this sheet regarding your company's attitude, please let me know.

Sincerely yours,

*Vice President and Actuary.*EMW:AV
Enclosures.

RECOMMENDATIONS FOR REVISED PRACTICE UNDER NEW OPTIONAL AGREEMENTS
ON BOTH NEW AND OUTSTANDING BUSINESS AS AMENDED AT THE INTER-COMPANY
CONFERENCE ON NOVEMBER 15, 1937

1. When a settlement agreement provides for a mode of settlement for secondary beneficiaries following a primary beneficiary no share of a secondary beneficiary shall be settled in other manner than by payment in one sum upon the death of such secondary beneficiary or by the continuation of any installments certain; provided however, that any such share which has been held under the interest option may be reapportioned to the surviving members of a class of secondary beneficiaries if composed of the insured's children or parents and if payments are limited to the period prescribed by rule 6.

2. Where the settlement is elected by the primary beneficiary at the death of the insured, no secondary beneficiary shall receive other than any remaining installments certain or a lump sum at the death of the primary beneficiary.

3. No provision shall be made for accumulating interest except during the minority of the beneficiary.

4. The insured shall not be allowed to provide that a beneficiary shall have the right to elect a life-income settlement of a guaranteed amount in lieu of a different settlement, if such right to elect would extend beyond one year from the insured's death, except at one date or age specified by the insured, or within 30 days thereafter. If the insured makes no provision for a mode of settlement, the beneficiary should not be given the right to choose later than one year from the insured's death a life-income settlement of a guaranteed amount, except at one date or age specified in the original election paper or within 30 days thereafter.

5. If a primary beneficiary is living at the death of the insured, a secondary beneficiary should not be given the right to select a mode of settlement for any of the proceeds, except in educational insurance elections.

3. When the proceeds are to be left at interest for a primary beneficiary, they shall not be continued for a secondary beneficiary at a guaranteed rate of interest of 3% or more or under an installment settlement unless the primary beneficiary dies within 30 years from the death of the insured, and then only for the balance of such 30-year period. This does not prevent an automatic life-income settlement for a secondary beneficiary. (The use of attained age 35 of the secondary beneficiary may be substituted for the 30-year limitation.)

7. The option granting a fixed number of installments should be limited to thirty years.

8. Under a settlement agreement arranged by the insured the proceeds of a double-indemnity provision should be paid in cash or be settled under a mode of settlement in the same manner and to the same person as the face amount of the policy, except on policies for \$5,000 or more.

9. Settlement agreements should not involve a remarriage contingency or be affected by presentation to the company of evidence of remarriage.

10. Eliminated at intercompany conference of October 14.

11. Provision should not be made for the payment of interest or installments through any corporation (such as a Trust Company) or any person presumably charging a fee for receiving payments, except during the minority of the beneficiary.

Supplementary Rule. Eliminated at intercompany conference of November 15.

EXHIBIT No. 793

[From files of The Equitable Life Assurance Society]

[Stamped: Dept. R. D. M. Apr. 17, 1927. (Initialed: A. McN.)]

[File 348. Settlement agreement folder]

NOVEMBER 16, 1937.

Modes of Settlement.

Mr. W. G. SCHELKER,

Vice President:

At an intercompany conference yesterday for the purpose of stimulating the adoption of settlement rules by additional companies, there were a few changes made in the rules to make possible wider adoption.

There was added at the end of rule 1 "or in continuation of installments certain, with the exception of a class of children or parents within the limitations of rule 6." It is not my understanding that the New York companies are interested in this additional language as they desire to follow the two life in being rule necessary in New York.

Rule 4 was altered by adding at the end of the first sentence "except at one date or age, or within 30 days thereof, specified by the insured." Similarly there was added at the end of the second sentence "except within 30 days of one specified date or age." Some of the companies feel that in view of the inattractiveness of the life-income option at low ages they feel compelled to give a privilege, for example, of letting the beneficiary convert an interest deposit to a life-income settlement at one specified predetermined time. It was recognized also that the companies might be somewhat embarrassed if they did not notify the beneficiary of the privilege to so elect when the one date arrives. If it should be considered

	1	2	3	4	5	6	7	8	9	11		
	Lump sum at death secondary beneficiary	Election by Ben. Lump sum at death	No accumulation of interest	Life income election limited	No election by secondary beneficiary	Interest Option to secondary beneficiary limited	Installments. Certain period limited to 30 years	No special double indemnity settlement	No marriage or remarriage contingency	Payments to corporation limited	Date of adoption	Remarks
1. Aetna.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes, next Policy change.	Yes.....	Yes.....	Yes.....	Already adopted.....	
2. Berkshire.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	No.....	Yes.....	No later than 1/1/38 if substantial agreement is obtained.	
3. Canada Life.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	1/1/38 for rules not already in force.	
4. Conn. Gen'l.....	Yes.....	Yes.....	Yes.....	Uncertain	Yes.....	Mod.-age 50 sec. ben. if no right to change.	Yes.....	Yes.....	Yes.....	Yes.....	1/1/38 for rules not already in force.	
5. Conn. Mutual.....	No.....	Yes.....	Yes, rare exception.	No.....	Yes.....	No.....	Yes.....	Yes, rare exception.	Yes, rare exception.	Yes, installment options, otherwise discourage but rare exception.	No immediate announcement intended.	
6. Equit. Iowa.....	Yes.....	Yes.....	Yes, rare exception.	Yes.....	Yes.....	Yes.....	Yes.....	No.....	Yes.....	Yes.....	Already adopted and announced.	
7. Equit. N. Y.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	1/1/38	
8. Fidelity.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	No.....	Yes.....	Yes.....	No, will discourage.	Yes.....		
9. Guardian.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Adopted 8/1/37.	
10. Home Life.....	Yes.....	Yes.....	Yes.....	Present policy prevents compliance.	Present policy prevents compliance.	Present policy prevents compliance.	Yes.....	Yes.....	Yes.....	Yes.....	Already adopted.	Policy recently revised; another revision not immediate.
11. Imperial.....	Yes.....	Yes.....	Yes, rare exception.	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	No.....	Yes.....	Now in force.	
12. John Hancock.....	Yes.....	Yes.....	Yes.....	Yes.....	Generally, Yes.	No.....	Yes.....	Yes.....	Yes.....	Yes.....	At an early date except where change in Policy is necessary.	
13. Mass. Mutual.....	No.....	Yes.....	Yes.....	No.....	Yes.....	No.....	Yes.....	Yes.....	No.....	Yes.....	These rules now in effect.	
14. Metropolitan.....	Yes.....	No, any other provision discouraged.	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	No.....	No, rare exception.	Yes.....	Adopted 6/11/37.	
15. Mutual Ben.....	No.....	Yes.....	Yes.....	No.....	Yes, except if elected by insured.	No.....	Yes.....	Double indemnity not issued.	No.....	No, rare exception.	Answers indicate present attitude.	
16. Mutual Life.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	11/9/37.	
17. National.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	1/1/38	
18. New Eng.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Mod.....	Yes.....	Yes.....	No.....	Yes.....	When new Policy appears late in winter.	
19. N. Y. Life.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	No.....	Yes.....	Adopted 4/28/37.	
20. Northwestern.....	Yes, under new contracts appearing shortly.	No.....	Yes.....	Yes.....	Yes.....	Yes, under new contracts appearing shortly.	Yes.....	Yes.....	Yes.....	No.....	Before 1/1/38	
21. Penn Mutual.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	No, will discourage.	Yes.....	Yes.....	Yes.....	Yes.....	1/1/38.	
22. Phoenix.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Approximately 1/1/38	
23. Provident.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	No, will discourage.	Yes.....	Yes.....	Yes.....	Yes.....	1/1/38	
24. Prudential.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Adopted 7/15/37	
25. State Mutual.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	No.....	Yes.....	When 75% of U. S. Companies in conference adopt rules.	
26. Sun Life.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes.....	Yes, rare exception.	Yes.....	1/1/38 or sooner.	
27. Travelers.....	Yes.....	Yes.....	Yes.....	Yes, rare exception.	Yes.....	Yes.....	Yes.....	No.....	Yes, rare exception.	Yes.....	Now in effect.	Policies contain no settlement options.

2. Where the settlement is elected by the primary beneficiary at the death of the insured, no secondary beneficiary shall receive other than any remaining installments certain or a lump sum at the death of the primary beneficiary.

3. No provision shall be made for

necessary to do so this point might cause considerable administrative difficulties. If you feel, however, that we should consider granting such a privilege will you kindly let me know.

It was reiterated under rule 5 that this rule does not prevent a provision for a secondary beneficiary choosing a specified alternate instalment benefit under educational agreements.

Under rule 7 it was pointed out that the "pay until exhausted" clause should be administered as nearly as possible so that the fund will not last longer than thirty years.

At the conclusion of yesterday's meeting it appeared, confidentially, that quite a number of additional companies would follow these new practices either in whole or in part.

(Signed) R. D. M.,
Vice President & Actuary.

Notation: Told W. G. S. re understanding that a company subscribing to rules need not feel bound in competition with a "No" company. R. D. M. 11/16.

EXHIBIT No. 794

[From files of The Equitable Life Assurance Society]

[Stamped: R. D. Murphy, Vice President & Actuary. May 26, 1938.]

[Stamped: Dept. R. D. M. Apr. 17, 1939. (Initialed: A. McN.)]

[File 348]

PROVIDENT MUTUAL LIFE INSURANCE COMPANY OF PHILADELPHIA
corner Sixth and Market Streets

EDWARD W. MARSHALL, *Vice President and Actuary*

MAY 25, 1938.

Optional Methods of Settlement.

Mr. R. D. MURPHY,

*Vice President and Actuary, Equitable Life Assurance Society,
393 Seventh Avenue, New York City.*

DEAR Mr. MURPHY: At the intercompany conference last week there was a considerable diversity of opinion regarding the guaranteed rate to use in the new policy forms for the optional method of settlement under which proceeds are left with the company at interest.

One substantial group of companies favors a 2 percent or 2½ percent guarantee in all cases, feeling that this reduced rate is necessary in view of the fact that such optional settlements would begin after the life insurance ends and would on the average extend over a considerable period thereafter.

The second group composed of a few companies would like to retain the present 3-percent guarantee on the grounds of service to clients and agency force.

A third group of several large companies leans toward the use of a 3-percent guarantee for funds left under elections made by the insured during his lifetime, effective at his death, where the beneficiary has no right of withdrawal, and no guarantee whatever under other funds left at interest. This suggestion has certain merit, but the use of no guaranteed rate of interest would mean a violent change from present practice, under Federal Income Tax laws there would be no exemption to the company of guaranteed interest, and there might be a question whether such a provision would be approved by all the states.

Each of these three points of view has certain advantages and disadvantages. It has seemed so important that we should endeavor to adopt a uniform guarantee for this optional method of settlement that the following suggestion is made, using the best ideas from each of the above proposals:

There are two main objectives which we would like to bear in mind in framing such a provision. The first is to do the best we can for our policyholders who are making programs for their beneficiaries and thus also aid our agents, and the second is to introduce a greater margin of safety than obtains at present. These two objectives seem to be met to a reasonable extent by the following suggestion.

On such funds left with the company at interest under elections made by the insured during his lifetime, effective at his death, where the beneficiary is not given the right to withdraw more than 10 percent of the proceeds in any one contract year or to choose another optional method of settlement except the

life income option, make a guaranty of 3 percent interest; on all other such funds left under this option make a guarantee of 2 percent.

The advantages of this type of provision are very great. The elections by the insured during his lifetime are the ones around which most programming, competition and agency service center. The guarantee of 3 per cent on these cases where the beneficiary is given little or no right of withdrawal might be justified because, in effect, the life insurance funds are simply carried over for the beneficiary without the disturbing influence of anti-selection introduced by the right of the beneficiary to withdraw or leave all or a large part of the funds according to the conditions at the time.

In the last three or four years we have seen the tremendous financial anti-selection which can be exerted by the beneficiary under optional methods of settlement. Thus the use of 2 percent on all other cases where the funds are left at interest is also reasonable, giving a very much needed protection to the company. The rate would apply to all cases where the funds were left by the beneficiary at the death of the insured, or by the insured at the maturity of endowment or surrender, or where the beneficiary was given the right to withdraw more than 10 percent of the proceeds in any one contract year under an election made by the insured effective at his death or given the right to choose another form of settlement except the life income option.

The same basis of fixing the guaranteed rate used in connection with optional settlements involving proceeds left at interest, should also be used in such settlements providing for an income for a fixed amount to continue until the proceeds with interest are exhausted.

If a provision for instalments certain for a fixed period is to be included in the policy, it could be provided that it would only apply if the beneficiary is given no right of withdrawal, so that the table could be based on 3 percent. If the right of withdrawal is desired, the election would have to be made under the option providing for a level income to be continued until the proceeds with interest are exhausted. This practice would eliminate the need of two different tables of instalments certain for a fixed period based on 3 percent and 2 percent, respectively. As an alternative, the option of instalments certain for a fixed period could be omitted from the policy and covered by an extracontractual rider in view of the fact that it has largely been displaced in general practice by the settlement calling for a fixed income until the proceeds and interest are exhausted.

As widely agreed upon at the recent intercompany conference the life income option could be based on 3 percent interest and the new annuity table set back one year. In view of the fact that the deferred annuity feature is present, thus destroying the attractiveness of the option from a banking viewpoint and minimizing financial anti-selection, it might be thought unnecessary to insist that the beneficiary shall not have the right to commute the instalments certain, even though 3 percent interest is employed.

The main advantage of the suggested provisions is that a consistent basis for the various optional settlements can be employed, the 3 percent guaranty made in the area where most desirable and least dangerous, and 2 percent guaranteed where a much needed margin of safety should be introduced.

It is likely that, in normal times, participation would be sufficient to put both the 2 percent and 3 percent funds on the same gross interest basis if desired. However, when earned interest rates are low, the differential could be taken into account if necessary to protect the company. This is according to the best mutual insurance traditions under which margins of safety are introduced to be returned as dividends if not needed, but otherwise to be used to meet the contingency involved.

The proposal in this letter has been discussed with a number of actuaries and they are very hopeful that a substantial number of companies of our type can agree on some such provision as a uniform basis in our forthcoming new policies. Perhaps there are some details which may need polishing, but that would be relatively easy if the main idea meets with favor.

This letter is being written to each of the following companies to see whether we cannot reach a common ground in this very important area of our policy contracts: Aetna, Connecticut General, Connecticut Mutual, Equitable of New York, Fidelity, Home, John Hancock, Massachusetts Mutual, Metropolitan, Mutual Benefit, Mutual Life, National of Vermont, New England, New York Life, Northwestern Mutual, Penn Mutual, Phoenix, Prudential, State, Union Central.

Would your company be willing to adopt such a provision if a substantial majority of these companies did so? It would be greatly appreciated if you could give consideration to this suggestion and let me know, say, by June 1 whether it appeals to your company as a basis for use in its new policies. An abstract of the replies would be sent to you.

With best regards,
Sincerely yours,

E. W. MARSHALL,
Vice President and Actuary.

EWM:AV

EXHIBIT No. 795

[From files of E. W. Marshall, Vice President & Actuary]

Provident Mutual Life Insurance Company of Philadelphia

PROVIDENT MUTUAL LIFE INSURANCE COMPANY OF PHILADELPHIA

Forty Sixth and Market Streets

EDWARD W. MARSHALL, *Vice President and Actuary*

JUNE 7, 1938.

OPTIONAL SETTLEMENTS

In view of the Little Entente meeting on Friday I am sending to the companies this preliminary report of the reactions to the suggestions contained in my letter of May 25.

The outstanding feature is a widespread desire of companies *to agree* on some standard basis so that unsound competition on differences in guarantee can be avoided. Although the ideas of the different companies still differ, many of them obviously are near agreement.

The suggestion in my letter met with the approval as a compromise from five companies assuming other companies agreed: Aetna, Connecticut General, Equitable of New York, Home, Union Central. The following companies were definitely opposed to it because they do not like to use two rates of interest for the same type of settlement depending on whether or not there is a right of withdrawal: New England, Northwestern Mutual, Prudential. The Mutual Benefit also was not favorable to the suggestion.

Most of the companies favor a uniform rate of less than 3%. Those preferring 2% as a uniform rate were: Aetna, Northwestern Mutual, Penn, Provident, State Mutual. Those preferring 2½% were: Connecticut Mutual, New England, Phoenix, Prudential, Union Central.

In other words about ten of the sixteen companies heard from favored a uniform rate of 2% or 2½%.

Two companies, Connecticut General and Equitable of New York still favor the use of 3% under elections by the insured effective at his death without right of withdrawal, and no guarantee whatever otherwise.

Two companies, John Hancock and Massachusetts Mutual, postponed decision until after the Little Entente meeting. The answer to my letter from the Fidelity Mutual and National of Vermont has been delayed by absences. The Metropolitan, Mutual Life, and New York Life have not yet been heard from.

The results of this questionnaire suggest that the Little Entente companies might very generally agree on a fixed rate of 2% or 2½%. The Provident very much prefers 2% because it is a safer rate to use in view of the possible uncertainties of the future. Now that we are changing, it seems that we might as well go the whole way and adopt a rate which would give us reasonably adequate protection against greatly reduced rates of interest or financial anti-selection in the future. Participation can always make up the difference when earned interest rates are greater.

Assuming that a uniform rate is used regardless of right of withdrawal, the following treatment of the various optional methods of settlement might follow:

Interest Option.—Use 2% for all proceeds left with the Company at interest, or if the great majority of companies prefer, 2½%.

Fixed Income until Proceeds and Interest are Exhausted.—Use same rate of interest as for Interest Option.

Instalments Certain for a Fixed Period.—Word provision so that there is no right of commutation or withdrawal after the option becomes operative except

at the death of the payee. If further right of commutation or withdrawal is desired employ the preceding option. With these conditions base the table in the policy on 3%. The Northwestern Mutual suggests the elimination of this option from the policy forms because it has largely been superseded by the preceding option.

Life Income Option.—Base the instalment certain on 3% with the same limitation of the right of withdrawal or commutation mentioned in the preceding paragraph.

The use of 3% in the last two options prevents an inconsistency at the older ages where the life income option is practically equivalent to the instalments certain option. In practice the exclusion of the right of withdrawal or commutation would not work a hardship as it is hardly ever desired under these options.

The New England Mutual suggests the use of the same interest rate (2½%) on all four of the options including the instalment certain period under the life income option.

In view of the widespread desire for a uniform basis between companies, is there any possibility that the Little Entente companies could get together on some such program as that outlined above?

Sincerely yours,

(Signed) E. W. MARSHALL,
Vice President and Actuary.

EWM:AV.

EXHIBIT No. 796

[From files of The Equitable Life Assurance Society]

[Folder 348]

[Stamped: R. D. Murphy, Vice President and Actuary. June 24, 1928.]

[Stamped: Dept. R. D. M. Apr. 17, 1939. (Initialed: A. McN.)]

PROVIDENT MUTUAL LIFE INSURANCE COMPANY OF PHILADELPHIA

Forty-Sixth and Market Streets

EDWARD W. MARSHALL, *Vice President and Actuary*

June 23, 1938.

Mr. R. D. MURPHY,

*Vice President and Actuary, Equitable Life Assurance Society,
393 Seventh Avenue, New York City.*

DEAR RAY: I am sorry the confidential letter regarding optional settlements was omitted from my letter of June 21. Here it is.

With best regards.

Sincerely yours,

E. W. MARSHALL,
Vice President and Actuary.

EWM:AV

Enclosure.

[Letterhead of Provident Mutual Life Insurance Company of Philadelphia]

OPTIONAL SETTLEMENTS

As promised, here is a confidential summary of the votes taken at the Little Entente meeting (or information later received) regarding the guaranteed basis of optional settlements. The votes of the Home and John Hancock were practically certain but subject to final confirmation.

Guaranteed Rate for Proceeds at Interest Option.—

2%—New York Life.

2½%—Aetna, Connecticut General, Connecticut Mutual, Home, John Hancock, Massachusetts, New England, Penn, Phoenix, Provident, State (Also Prudential and Northwestern Mutual). The National of Vermont has not yet decided, and the Mutual Benefit may adhere to a 3% rate.

Basis of Life Income Option.—Instalments certain based on 3%, and the life annuity element on the new annuity table at 3% set back one year, the same basis to apply also to endowment income and retirement annuity maturity settlements: Aetna, Connecticut General (on participating business), Home, John Hancock, Massachusetts, National of Vermont, New England (prefers 2½% for instalments certain portion), Penn, Phoenix (for optional settlements), Provident, State. (Also New York Life and Northwestern Mutual.) The Connecticut

Mutual has not decided. The Mutual Benefit may use a basis approximately the same at the older ages but more liberal at the younger ages. The Connecticut General may employ a slightly more liberal basis on its non-participating business only. The Phoenix may not make the one-year set-back in age for maturity settlements in income policies with a fixed maturity date. A number of companies will use the theoretically accurate correction varying by age to obtain the monthly annuity value from the yearly value, instead of the approximate and slightly redundant one not varying by age previously used. To illustrate, for a settlement to a male aged 65, this true value would be \$1,522.84 for a life annuity of \$10 monthly with 120 months certain.

If there are any inaccuracies regarding this statement of the vote of your company please let me know at once.

A very gratifying degree of unanimity was reached regarding the two options mentioned above, which are by far the most important ones in practice. The vote on the two types of instalment option which furnish a temporary income of a fixed amount or for a fixed period were less clear cut.

The companies rather inclined toward using $2\frac{1}{2}\%$ for the fixed income until proceeds and interest are exhausted option because it could have certain semi-banking characteristics and usually involves the right to withdraw. They also leaned toward using 3% for the instalments certain for a fixed period in order to avoid a conflict at the older ages with the life income option with its instalments certain based on 3% .

On the other hand some companies dislike to use $2\frac{1}{2}\%$ for one instalment option and 3% for the other one, feeling that both are essentially equivalent. Some of the companies felt that they should use $2\frac{1}{2}\%$ for both types of instalment option and endeavor to circumvent the slight inconsistency with the life income option which would occur at the older ages by modifying the life income table at those ages.

Most of the companies which had in mind using 3% for the option of instalments certain for a fixed period were considering linking it up with a provision for no right of commutation of unpaid instalments certain after the instalment payments had begun, except at the death of the payee. They felt that this would eliminate any possible use of the option as a banking proposition and would justify the use of 3% . On the other hand they prefer to use $2\frac{1}{2}\%$ on the fixed income until proceeds and interest are exhausted option in order to permit the right of withdrawal and consequent elasticity.

There is much to be said for the point of view advanced by some at the Little Entente meeting that $2\frac{1}{2}\%$ should be used for both instalment options. Then the right of commutation would not have to be withheld and there would be no inconsistency between the guaranteed basis of instalments for a fixed amount and those for a fixed period.

If this were done, the inconsistency at the older ages between the figures shown in the table in the policy for instalments certain for a fixed period based on $2\frac{1}{2}\%$, and the life income option with its instalments certain based on 3% , could be eliminated by making the figures for the life income level instead of increasing after age 85 for 10 years certain and age 65 for 20 years certain.

This may be the best solution of the problem regarding the basis of the two instalment options. Thus it is now proposed that $2\frac{1}{2}\%$ be used for the options providing respectively for fixed income until proceeds and interest are exhausted, and for the instalments certain for a fixed period when taken by themselves and not in conjunction with the life income option. This will supersede the suggestion for these two types of instalment option mentioned in my letter of June 7. How does this appeal to you?

Sincerely yours,

EWM:AV

Vice President and Actuary.

EXHIBIT No. 797

[From files of The Equitable Life Assurance Society]

[File 348]

[Stamped: R. D. Murphy, Vice President & Actuary. July 8, 1928. Referred to (notation: Mr. Blackadar to note & return.)]

[Notation: Noted. — B.]

[Stamped: Dept. R. D. M. Apr. 17, 1929. (Initiated: A. McN.)]

PROVIDENT MUTUAL LIFE INSURANCE COMPANY OF PHILADELPHIA

Forty-Sixth and Market Streets

EDWARD W. MARSHALL, *Vice President and Actuary*

JULY 7, 1938.

Optional Methods of Settlement.

Mr RAY D. MURPHY,
Vice President & Actuary,
Equitable Life Assurance Society,
New York City.

DEAR Mr. MURPHY: The various companies have very kindly cooperated in making it possible to prepare the enclosed chart giving their confidential plans regarding the new optional settlement basis. The Home Life and National of Vermont have not made a final decision but their present inclination is shown.

It will be seen that there is almost complete uniformity in connection with the interest option and the life-income option. Two companies are planning to base the instalments certain in the life-income option on 2½ percent instead of 3 percent and the Connecticut General to base them on 3½ percent for its nonparticipating policies only. With the few exceptions shown on the sheet, the companies will use the life-income option basis for maturity settlements under endowment-income policies.

The great majority of the companies indicate that they will employ 2½ percent for the fixed income until proceeds and interest are exhausted option. There is less agreement regarding the instalments certain option, although the majority of the companies favor 2½ percent. A number of the remaining companies lean toward the use of 3 percent with no right of commutation, but some of them have indicated that they may decide on 2½ percent if the majority of the companies favor it.

Most of the companies plan to put this program into effect January 1, 1939. The Penn Mutual will make the optional settlements effective as of that date but will defer the remainder of the program until July 1, 1939, when the new rate book will appear. The Home Life feels that it will be impracticable to get all the forms approved by January 1, 1939, but will do so as soon as feasible thereafter.

There was some question raised as to whether the Massachusetts Department would approve optional settlement provisions with different rates of interest used for different options. The Department has stated tentatively to Mr. Tebbetts that it would approve settlements based on 2½ percent for the interest option and both instalment options, and 3 percent throughout for the life income option.

If there are any inaccuracies regarding the plans of your company set forth on the accompanying chart, please let me know so that a correction can be made.

Sincerely yours,

EWM:AV

E. W. MARSHALL,
Vice President and Actuary.

Confidential.

Basis of optional settlements planned for 1939 policy forms

Company [19 companies]	Interest Option	Life Income Option— All 3%, New Table Set Back 1 Year	Maturity Settlement Endowment Income Policies—Same as Life Income Option	Fixed Income Until Proceeds and Interest Exhausted	Installments Certain
	<i>Percent</i>			<i>Percent</i>	<i>Percent</i>
Aetna.....	2½	Yes.....	Yes.....	2½	2½
Conn. Genl.....	1 2½	Yes (Par. bus.).....	Yes.....	1 3	1 3
Conn. Mut.....	2½	Not set back.....	Yes.....	3	3
Equit. N. Y.....	1 3	Yes.....	Yes.....	(3)	(3)
Home.....	2½	Yes.....	Yes.....	(2)	(2)
John Hancock.....	2½	Yes.....	Yes.....	2½	(2)
Mass. Mut.....	2½	Yes.....	Yes.....	2½	(2)
Metropolitan.....	1 3	Yes.....	Yes.....	(4)	1 3
Mutual Life.....	2½	Yes (2½) [for certain period, 3% on deferred annuity].	Yes.....	2½	2½
National Vt.....	2½	Yes.....	Yes.....	(3)	(3)
New England.....	2½	Yes.....	Yes.....	2½	2½
New York.....	2	Yes (2½).....	Yes.....	2½	2½
Northwestern.....	2½	Yes.....	?.....	2½	2½
Penn.....	2½	Yes.....	Yes.....	2½	2½
Phoenix.....	2½	Yes.....	Not set back.....	2½	2½
Provident.....	2½	Yes.....	Yes.....	2½	2½
Prudential.....	2½	Yes.....	Yes.....	3	3
State.....	2½	Yes.....	Yes.....	2½	2½
Union Central.....	2½	Yes.....	Yes.....	2½	1 3

¹ Limited withdrawals.² No commutation.³ No information, or under consideration.⁴ No provision.

NOTE.—Penciled notations enclosed in brackets.

EXHIBIT No. 798

[From files of The Equitable Life Assurance Society]

[Stamped: R. D. Murphy, Vice President & Actuary. July 8, 1928. Referred to (notation: Mr. Blackadar.)]

[Stamped: Dept. R. D. M. Apr. 21, 1939. (Initiated: A. McN.)]

PROVIDENT MUTUAL LIFE INSURANCE COMPANY OF PHILADELPHIA

Forty-Sixth and Market Streets

EDWARD W. MARSHALL, *Vice President and Actuary*

JULY 28, 1938.

Optional Methods of Settlement.

Mr. R. D. MURPHY,

*Vice President and Actuary, Equitable Life Assurance Society,
393 Seventh Avenue, New York City.*

DEAR MR. MURPHY: Since we sent you the letter of July 7 and the accompanying summary of the attitude of companies regarding optional methods of settlement, a few changes can be noted. For the Connecticut General, change the answer under Life Income Option to "Yes" and under Maturity Settlement of Endowment Income Policies to "Yes (Par. Bus.)." Also note that the Connecticut General policy forms will contain no provision for any withdrawals or commutation under optional methods of settlement.

The National of Vermont will probably use $2\frac{1}{2}$ percent for both instalment options.

The Massachusetts Mutual has practically decided upon $2\frac{1}{2}$ percent for instalments certain but is waiting to hear of any further action before making a final decision.

The Equitable of New York will use $1\frac{1}{2}$ percent instead of no guarantee for the interest option where funds are withdrawable. Its life-income option will be without right of commutation, and the two instalment options will be based on 3 percent with withdrawal or commutation only as may be approved by the Society at the time of the election of the option.

The Northwestern Mutual, Connecticut Mutual, and Phoenix are still considering whether to use the standard basis on maturity settlements of endowment income policies.

In general, the changes that have occurred have been slightly in the direction of still greater uniformity than indicated in the summary previously sent you.

Sincerely yours,

(Signed) E. W. MARSHALL,
Vice President and Actuary.

EWM:AV

EXHIBIT No. 799

[Prepared by the Securities and Exchange Commission Insurance Study Staff]
Inter-Company Meetings Re Settlement Options

Date of Meeting	October 10, 1935	October 24, 1935	November 14, 1935	June 9, 1936	June 30, 1936	June 3, 1937	November 15, 1937	December 1, 1937	April 22, 1938
UNITED STATES COMPANIES									
Metropolitan Life Insurance Co.	X	X	X	X	X	X	X	X	X
Prudential Insurance Co.	X	X	B	B	X	X	X	X	X
New York Life Insurance Co.	X	X	X	X	X	X	X	X	X
Equitable Life Assurance Society of U. S.	X	X	X	X	X	X	X	X	X
Mutual Life Insurance Co.	X	X	X	X	X	X	X	X	X
Northwestern Mutual Life Insurance Co.									
Travelers Insurance Co.	X	X	X						
John Hancock Mutual Life Insurance Co.	X	X							
Penn Mutual Life Insurance Co.	X	X							
Mutual Benefit Life Insurance Co.	X	X							
Massachusetts Mutual Life Insurance Co.	X	X							
Aetna Life Insurance Co.	X	X							
New England Mutual Life Insurance Co.	X	X							
Union Central Life Insurance Company									
Provident Mutual Life Insurance Co.	X	X							
Connecticut Mutual Life Insurance Co.	X	X							
Connecticut General Life Insurance Co.	X	X	X(C)						
Phoenix Mutual Life Insurance Co.	X	X							
National Life Insurance Co. (Vt.)	X	X							
State Mutual Life Insurance Co.	X	X							
Equitable Life Insurance Co. of Iowa									
Guardian Life Insurance Co.	X	X							
Fidelity Mutual Life Insurance Co.									
Home Life Insurance Co., New York	X	X							
Berkshire Life Insurance Co.									
United States Life Insurance Co. (New York)	X								
Total Insurance in Force X United States Companies 1	\$76,057,457	\$76,471,785	\$41,536,272	\$36,824,599	\$70,546,853	\$83,727,013	\$88,179,361	\$77,788,635	\$88,750,177
Total Admitted Assets X United States Companies 1	\$18,122,796	\$18,224,830	\$10,794,507	\$9,533,602	\$19,127,005	\$20,854,825	\$22,163,566	\$19,108,698	\$22,352,521
Percentage of Total Insurance in Force in all United States Companies Represented by X United States Companies.	75.51	75.92	41.24	36.56	78.97	79.99	80.34	70.99	81.00
Percentage of Total Admitted Assets in all United States Companies Represented by X United States Companies.	78.06	78.50	46.49	41.06	82.39	83.84	84.44	72.80	85.16
CANADIAN COMPANIES									
Sun Life Assurance Co. of Canada.	X	X			X	X	X		X
Imperial Life Assurance Co.	X								
Canada Life Assurance Co.	X								

B—Invited—wrote letter instead.

C—Represented Hartford Companies.

1 These figures have been computed from the nearest year-end statement.

EXHIBIT No. 800

[From files of Aetna Life Insurance Co.]

MEETING HELD DECEMBER 1, 1937, AT OFFICE OF NEW YORK LIFE

Representatives of the companies who have been considering settlement options were asked to attend this meeting for the purpose of considering the adoption of a new mortality basis for settlement options. The meeting was attended by representatives of the same companies which had attended previous meetings except the Canada Life, Equitable of Iowa, Imperial, Mutual Benefit, New England, and Northwestern.

There was a general agreement that a more conservative mortality basis should be adopted for settlement options and all of the representatives present, except those representing the Connecticut Mutual and the Guardian, were prepared to recommend the adoption of a new basis which would be as conservative as that proposed. These companies were prepared to go ahead with the necessary policy changes provided companies generally would adopt the same basis.

The Connecticut Mutual are now using a $3\frac{1}{2}\%$ interest basis on the American Annuitants Table without rating of age and were prepared to change to a 3% interest basis but were not prepared to adopt as conservative a mortality basis as the new table, particularly in connection with retirement income policies.

The Guardian are changing their life income policies on January 1st to the American Annuitants Select Table with 3% interest but they are not prepared to adopt a more conservative mortality basis. It is their belief that they can prevent antiselection by their adoption of the new procedure regarding settlement options and would not recommend any further change at this time.

The Metropolitan expressed the opinion that the new table would introduce complications with Group Annuity rates and recommended the adoption of the Combined Annuity Table with a rating of two years for males and seven years for females. It was stated that this table would bring out approximately the same values for the settlement options. It was pointed out, however, that while this might be true for the annuities following a 10 or 20 year deferred period, it would not be true if the new table were to be applied to immediate annuities.

Representatives of the following companies stated that they would probably make settlement options participating after the certain period if the new table were adopted:

Massachusetts Mutual.
Equitable.
Provident.
Home.
Penn Mutual.
Fidelity.

Phoenix.
Metropolitan.
Mutual.
John Hancock.
New York.

The New England sent word by the John Hancock representative that they want to change their mortality basis for settlement options in the very near future and if a new table is agreed upon they would adopt that but they regard it as essential that they make some change very shortly.

Mr. Flynn stated that since any settlements used would be wholly Nonparticipating he felt there should be a differential in the guaranteed rate of interest for a Nonparticipating contract of $\frac{1}{2}$ of 1% if no provision were made for excess interest.

Some discussion occurred in regard to the adoption of a proposed new table for immediate annuity rates and it was decided to appoint a new committee to consider the whole question. They would first make an investigation of the appropriateness of the suggested new table as compared with modifications of existing tables, particularly with reference to inconsistencies with Group Annuity rates. They would then investigate the appropriateness of this table for immediate annuity contracts without any guaranteed period. Dr. Hunter appointed the following members on this committee:

Bassford, Chairman.
Blackadar.
Flynn.
Grout.

Kineke.
Strong.
Douglas.

Some discussion of Retirement Annuity contracts took place and a number of persons stated they would like to discontinue this contract provided some substitute annuity plan that would be salable could be developed to take its place. The committee was, therefore, asked to investigate the present practice of companies regarding these annuities and their attitude toward possible changes.

Points to be considered were commission rates, restriction of number of renewal commissions to Agent, entire discontinuance of the plan, provision that cash values must be paid over a period of years, and possible substitute forms of contracts.

EXHIBIT No. 801

[Notation: Mr. Howell's office.]

[Stamped: The Prudential Insurance Company of America.]

RE GUARANTEED SURRENDER VALUES

During the present depression the phrase "Cash Position" has come into use, due to the fact that many companies have found that the demands for surrender values and policy loans have exceeded the excess of income over outgo in other directions.

Among the smaller companies in particular, suggestions have been numerous as to ways and means of meeting the difficulty. Typical of these suggestions is one that would permit the life-insurance company to pay one-half of the surrender value in cash and the other half in paid-up insurance. All these suggestions would require legislative action in most of the states, which action is quite unlikely to be forthcoming, due to the feeling that it is part of the duty of the life-insurance companies to be prepared with the surrender and loan values in an emergency.

In the case of our own company the position has not up to the present become so acute, although the possibilities have resulted in our sacrificing interest earnings to some extent in order to invest in Government securities. The possibility of an even worse situation arising in some future depression must be admitted, especially as bills have been introduced in several states which, if enacted, would compel us to grant cash-surrender values on Industrial policies before the end of ten years. It is, indeed, not improbable that in the State of Massachusetts the five-year period, which now applies to domestic companies, may be made compulsory for all Industrial policies issued in that state.

Several of the companies whose surrender values have been on an unusually liberal basis, in some instances being 100% of the reserve after three years from issue, have already reduced their surrender values, and others undoubtedly will follow suit. In our own case, under our Ordinary contracts the full reserve is not paid as surrender value until after ten years from issue, so that we are to a slight extent in a better situation than the companies which have gone furthest in the matter of liberal surrender values. In view, however, of the experience during the depression, it has been thought worth while to consider what might be done to relieve the situation in future within the limits of the present statutory requirements.

While the State laws are by no means uniform as to the matter of minimum surrender values at the present time, any surrender value which represents the full reserve reduced by not more than \$25 per thousand of insurance is permissible, except in the early years where the Missouri requirement of a value not less than 75% of the reserve on the Combined 4% Table would have to be observed.

Under normal circumstances the Prudential's present scale of surrender values is conservative. It is on the whole lower than the Metropolitan's scale, which provides for full reserves after five years instead of after ten years from issue. The right to pay a lower surrender value in times of stress, however, would appear to be justified, as the payment of these surrender values in cash at such period may place a special burden on the company. It would appear reasonable where securities had to be sold at a loss in order to pay an abnormal demand for surrender values to charge the amount of loss to the surrendering policyholders. There is, therefore, a reasonable ground for a reduced surrender value in times of stress.

To be in a position to reduce surrender values in times of stress it is, of course, necessary that the maximum *guaranteed* surrender value should be the minimum which the company undertakes to pay under all circumstances. If this minimum were to be fixed at the reserve less \$25 per thousand, modified as indicated above, with the proviso that for any period, such as a calendar year, the Board of Directors might provide for the payment of larger surrender values, under normal conditions current surrender values could be paid, but in the case of an emergency the minimum guaranteed surrender values, according to the contract, would be all that the policyholder could demand.

Calculations have been made which indicate that in the case of our Ordinary department, the cash surrenders of 1932, totaling about \$68,000,000, would have been reduced had the proposed plan been in operation on all contracts by about \$3,000,000, while policies lapsing for extended insurance would have been credited with values lower by about \$2,000,000, making the total saving about \$5,000,000, which in itself would have been a substantial contribution towards our asset losses. In the case of the Industrial department, where surrender values at present are relatively somewhat lower, the saving for 1932 would have been about \$4,000,000.

With little hope of legislation permitting increased protection from a cash drain, there does seem to be good reason for the companies providing themselves with the maximum protection that the present state of the laws permits. It probably would not be feasible for any one company to start alone along the path indicated, but if the Prudential jointly with the four large New York companies adopted the plan, it would unquestionably be followed by many other companies, who at the present time are very anxious to provide, as far as possible, against a recurrence of the extremely difficult situation which they have suffered from for the last year or two. It is suggested, therefore, that if the plan is felt to be desirable the matter should be discussed with the four other companies indicated to see what possibilities of joint action may exist.

In the case of the Prudential, a special situation arises in connection with our Intermediate policies. These, in common with our Ordinary policies, provide for surrender values after two years on the 20-Year Endowment plan and after three years on the others. If our experience during 1932 under our Industrial policies, on which surrender values are demandable after ten years, is an accurate guide as to what would result under similar circumstances in the future in our Intermediate department, the immensely large proportion of reserves subject to demand for cash surrender value might produce results which would be disastrous. It is suggested, therefore, that careful consideration be given to the question as to whether, in view of what has happened, Intermediate policies should not hereafter be written in the Industrial department with cash surrender values commencing only after the end of five years.

Second Vice President and Associate Actuary.

FEBRUARY 15, 1933.

EXHIBIT No. 802

[Notation: Mr. Howell's office.]

[Stamped: The Prudential Insurance Company of America.]

[Initialed: J. K. G.]

Memorandum for Col. D'Olier.

During last year or the present year six participating companies and three non-participating companies have reduced surrender values. The participating companies are Northwestern Mutual, Massachusetts Mutual, Provident Mutual, National of Vermont, Connecticut Mutual, and State Mutual. All of these companies have adopted a deduction from the reserve of \$16 per thousand for duration of two years, \$14 per thousand for duration of three years, and so on, so that after ten years no deduction is made at all.

The three large nonparticipating companies, the Travelers, Aetna, and the Connecticut General, have adopted uniform surrender values which represent for all of them a substantial deduction from the previous values allowed. These companies reach the full reserve after fifteen years' duration, prior to which a deduction of one-third of the reserve, but never less than \$12.50 per thousand or more than \$24.50 per thousand is used. This is modified to a deduction of about \$18 in the twelfth year, \$12 in the thirteenth year, and \$6.00 in the fourteenth year.

As the attached copy of a memorandum handed to Mr. Gore indicates, we are suggesting decidedly more drastic deductions than those made by the companies named above. Mr. Gore intends to take the matter up with the representatives of the other four large companies in the New York metropolitan area, it being felt that the new schedule of surrender values would be undesirable unless adopted by at least three or four of the five large companies. If substantially reduced values are adopted by the very large companies it is almost certain that many of the smaller companies will be glad to follow suit. Indicative of this attitude is a statement from the actuary of the National of Vermont one of the companies which has made a reduction recently, to the effect that he regards the reduction merely as a step in the right direction, but as long a step as comparative conditions

justify the company in taking at this time. The importance of the matter to the companies is, of course, the justification for an effort to secure the desired cooperation.

You will also observe from the memorandum in question that a very potent reason has now developed for changing our Intermediate contracts from Ordinary to Industrial issues.

_____,
Second Vice President and Associate Actuary.

APRIL 18. 1933.

EXHIBIT No. 803

[From files of The Prudential Insurance Co. of America]

RE GUARANTEED SURRENDER VALUES

Supplement to memorandum of February 15, 1933

In the earlier memorandum the desirability of adopting the minimum legal surrender values was discussed. It was there suggested that these minimum surrender values could and should be paid in a time of emergency, with a consequent saving to the life-insurance company, which saving in our own case would have represented in 1932 cash of \$3,000,000, with an additional \$2,000,000, less reserve required for the extended insurances granted, so that the total actual saving from the point of view of surplus would have been \$5,000,000 in our Ordinary department. In our Industrial department the total saving, cash and extended insurance, would have been about \$4,000,000.

It was suggested that in normal times companies would probably want to pay surrender values not very different from the present scales, and this could be done by resolution of the Board from time to time. It is felt, however, that surrender values temporarily increased by the Board would not prove the most satisfactory adjustment, and it is now suggested as an alternative that the surrender values at all times consist of the reduced values established by the policy contracts, which would make no reference to any other possible allowance. In practice, however, the Board could at the end of each year set up a scale of final settlement dividends which would be paid upon the termination of a policy by surrender during the next ensuing year. The final settlement dividend would apply whether the surrender was for cash or for paid-up or extended insurance. As loans on the policies would be made only to the extent of the policy surrender value, a policy lapsing with the full loan granted thereon would, so long as final settlement dividends were available, always have some period of extended insurance, so that an immediate forfeiture of a policy old enough to have a surrender value would not follow upon the failure to pay a premium. This would frequently prove of real service to the policy holders where, after having borrowed the maximum loan, the failure to pay the premium through inadvertence may sometimes rob the family of the insurance protection.

The strengthening of the cash position to the maximum that present legislation would permit seems to be entirely desirable, but the substantial reductions in surrender values which would result would probably not be a practicable measure unless a number of the larger companies adopted the plan, in which case we could be very certain that many of the smaller companies would be only too glad to follow suit.

The smaller cash surrender values recited in the policies would probably tend to hamper somewhat the operations of the twisters, who make a livelihood by inducing the insured to transfer from one company to another, and very generally at a loss to the policyholder approximately equivalent to the commission secured by the twister.

At the present time the Prudential allows cash surrender values on Ordinary Endowments after two years and Life policies after three years. Many companies use the two-year period for both Life and Endowment contracts. It is proposed in the case of the two-year surrender values which are not required by law to give the value in paid-up or extended insurance only, allowing no cash prior to the payment of premiums for three full years. This in our own case would not increase the surplus earnings, but would improve the cash position in a year such as 1932 by about \$500,000. It is also proposed that where the policy recites, as in our own case, that paid-up or extended insurance may be surrendered for cash at any time, this be changed to read "at any time after one year from the issue thereof." This would enable the Company to defer demands for cash on account of these contracts in an emergency, although it would normally allow the cash surrender value at any time as a matter of practice. The object of all the above suggestions

is to improve the cash position and the surplus margin in an emergency such as exists at present. While the additional margin secured would be far from sufficient to assure control of the difficulties under all circumstances, the extra margin secured would prove very desirable and helpful when need therefor arose.

INTERMEDIATE ISSUES

In the earlier memorandum it was also suggested that Intermediate policies should not be entitled to cash surrender values until at least five full years' premiums had been paid thereon. An examination of the reserves subject to demand for cash surrender value or loan during last year indicates that the rate of demand was substantially higher in the case of Intermediate policies than in the case of regular Ordinary contracts. As might be apprehended, the Intermediate rate of demand follows rather the Industrial than the Ordinary rate, although as yet Intermediate policies are not being frequently surrendered for the purpose of taking out new insurance as in the case of many Industrial contracts. In due course, however, this condition will undoubtedly arise, and in the event of another serious depression twenty or thirty years hence, if there is a very large volume of Intermediate reserves, the great bulk of which is demandable as loan or cash surrender values, the protection secured in the Industrial department by the delay of cash surrender values for ten years may be found to be very sorely needed. It is, therefore, suggested that, unless some very important reasons can be found for not making the change, Intermediate policies should hereafter be issued as Industrial contracts, this being necessary in order to avoid the requirement for payment of cash surrender values after three years. The change would incidentally enable us to use a uniform paid-up addition arrangement for dividends, thereby reducing considerably the Home Office work in connection with such policies.

Second Vice President and Associate Actuary.

APRIL 17, 1933.

EXHIBIT No. 804

[Notation: Mr. Howell's office.]

[Stamped: The Prudential Insurance Company of America.]

DISCUSSION AT MEETING IN NEW YORK LIFE OFFICE CONCERNING ANNUITY PREMIUMS AND SURRENDER CHARGES

It was agreed that, on account of convenience, instead of using separate male and female American Annuitants' Select tables for the calculation of annuity premiums, only the male table should be used. In determining premiums, the age used was at one year less than the actual in the case of males and five years less in the case of females. This change from the previous arrangement would increase the cost of annuities to females and, in order to produce the same results in the aggregate as the previous proposal, it was agreed to change the loading from 5% to 4½% of the gross premiums.

The annuity to a man aged X would, therefore, be based on the single premium at age X-1, at 3¾% interest on the American Annuitants' Select table, with a loading of 4½% of the gross premium. For women we would substitute X-5 for X-1.

Commissions on annuities were to be generally limited to not more than 3% for the soliciting agent, and not more than ½ of 1% overriding for the general agent, who would not be permitted to allow any part of the overriding to the soliciting agent. The Penn Mutual, having recently changed from an overriding of 2% with 3% to the soliciting agent to an overriding of 1%, did not feel that it would be practicable immediately to further reduce this overriding. Other companies paying higher than the scale indicated have intimated that they are willing to reduce commissions so as not to exceed the suggested maximum.

The companies which felt that the new basis could certainly be adopted as soon as practicable were the New York Life, the Mutual Life, the Equitable, the Aetna, Travelers, Massachusetts Mutual, Connecticut General, and the Prudential. Companies which felt that very probably the entire plan would be adopted were the Fidelity Mutual, the Home, the Penn Mutual, the Guardian, the Berkshire, and the Sun Life, while the actuary of the National of Vermont strongly approved the program but was not quite sure that complete agreement thereto could be secured. The Provident Mutual, the Phoenix Mutual, and Connecticut

Mutual all agreed that increases would be made, but not to quite the scales described above.

Considerable discussion on surrender values developed the fact that while some five companies were prepared if enough other companies joined them to adopt the present maximum legal surrender charge, a number of the other companies felt that, while surrender charges should be increased, something approximating the new surrender charges of the non-participating companies would be desirable. As many as 14 companies out of 17 agreed to approve these or larger charges. In the course of the discussion there seemed to be a growing appreciation of the fact that the maximum surrender charge did not represent a serious hardship on the individual policyholder, and it did seem possible that further consideration might increase the number of companies willing to use the maximum charges.

Several companies were prepared to reduce substantially the cash surrender values if they did not have to reduce correspondingly the paid-up and extended insurance. The laws of several states, however, including New York, appear to require that the cash surrender value shall be not less than the equivalent of the other nonforfeiture benefits.

Suggestions as to further restrictions which would involve legislative enactment developed in due course that the companies very generally would be glad to have the period for which the company should have the right to delay payment extended from three months to one year. There was some doubt as to whether the Insurance Department would favor so considerable an extension, but the point was made that at the present time their experience would probably tend to make them more willing to regard favorably the longer waiting period.

It was also suggested that the companies should have the right to pay surrender values or loans in instalments over a period of one year. It was pointed out that if the Company had the right to defer the whole payment to the end of the year, it could without any further clause in the policy pay in instalments over a year instead of in one sum.

It was felt that, as a number of those present had not been aware that surrender value charges were to be discussed, after talking the matter over with their respective companies a further meeting might be helpful in developing a fairly unanimous agreement as to what steps should be taken in the matter. There appeared to be a general recognition of the fact that if anything was to be done, it should be done speedily.

Second Vice President and Associate Actuary.

MAY 19, 1933.

EXHIBIT No. 805

[Notation: Mr. Howell's office.]

[Stamped: The Prudential Insurance Company of America.]

PROPOSED PROGRAM RE PREMIUM RATES, RESERVE BASIS, AND SURRENDER CHARGES

At the outset an endeavor is to be made to see whether by agreement with the Mutual Benefit increase in all reserves, including those carried at 3%, will call for a special contingency reserve instead of merely increase of reserves carried at interest rates higher than 3%.

Acquiescence in such change by the Mutual Benefit with the necessary legislation would enable us to go to a 3% American Experience basis with our reserves.

In the not unlikely event of finding the Mutual Benefit unwilling to acquiesce in the proposed change, it is planned to ask the Insurance Department at Trenton to father a change in the valuation law which will permit the use of the American Men Ultimate table for valuation purposes at a rate of interest not less than 3% or more than 3½%. With this change in the law it is proposed to adopt a 3¼% American Men Ultimate reserve. On this basis the aggregate reserves would not be very different from those on the American Experience table at 3%. An examination of the laws of the various states indicates that there would be no objection to carrying the reserves on the basis indicated, provided our surrender values were not less than those required by the laws of the various states on the basis of an American 3½% valuation. It appears probable that when limited payment life policies become paid up at the very high ages we would have to carry a reserve equal to the surrender values based on the American Experience 3½% table,

which at the higher 80's and in the 90's would involve a higher reserve than according to the proposed standard. This requirement would be of no consequence, the amount of money involved being trifling.

There would be a few cases where, given a surrender value according to the American Experience $3\frac{1}{2}\%$ and using the maximum legal deduction, the surrender value would be greater than according to the American Men $3\frac{1}{4}\%$ reserve less the maximum deduction, but not greater than the full reserve according to the last-named table. Over almost the whole area it would be practicable, if desired, to make the full \$25 deduction from the actual reserve to be carried.

At the earlier durations the Missouri requirement for a surrender value equal to 75% of the Combined 4% reserve calls for higher surrender values than might otherwise be felt desirable, but it is planned to interest the American Life Convention in an endeavor to have the Missouri requirements as to surrender charges brought into line with those of other states.

In Massachusetts the maximum surrender charges would also interfere very seriously with the program of substantially increased surrender charges, if the effort to make the requirement which at present applies to domestic companies also apply to foreign companies on policies issued in Massachusetts succeeds. The companies have been successful in preventing the proposed change becoming a law so far.

If the plan of using the American Men Ultimate table with $3\frac{1}{4}\%$ interest proves feasible, reserves will be increased substantially for whole-life policies, more slightly for endowments, and sometimes decreased, especially at the older ages, for limited-payment policies. These latter, however, are issued very largely through our Industrial field force, to whom the change in surrender values would probably not be of any great importance. The increased reserves on the whole life and endowment plans would very materially assist the program of increasing the surrender charges at the same time that premiums are increased.

Within the next two or three months it will be necessary practically to decide what surrender charges we are to make on the new issues, namely, those from January 1, 1935, on. At the present time the situation appears to be that the Prudential and the New York Life favor the maximum legal surrender charge at all durations. The Mutual Life, whose actuary earlier seemed quite anxious to use the maximum surrender charge throughout, now must be classified as willing to use the maximum surrender charge if a fairly general adoption thereof can be secured, but also reasonably content with surrender charges limited to not more than 20 years' duration. The Metropolitan is in about the same situation as the Mutual Life, while the remaining one of the larger companies, the Equitable, is definitely opposed to the full \$25.00 charge even for durations up to 20 years, and is also opposed to any surrender charge from 20 years on. Notwithstanding the repeated pointing out of the fact that these surrender charges do not necessarily, in the case of participating mutual companies, mean any actual charge to a given policyholder, and in any event can mean no extra charge to the policyholders as a whole, the minds of the representatives of the companies seem continually to slip back to the idea that an unnecessary deduction is being made from the reserve when the company has funds in hand to pay it. From some remarks made recently by Mr. Graham, of the Equitable, it seems not improbable that there is a division of opinion in that company as to the proper extent of surrender charges. It may possibly happen that more conservative surrender values may yet be adopted by that company.

The three large nonparticipating companies, domiciled in Hartford, have come to an agreement among themselves to use the maximum surrender charge permitted by law throughout the history of the respective policies. This decision may prove of extremely great importance in the future to these companies, as a sharp reduction in the rate of interest might so impair their profits that something of a run for surrender values might develop. If in each case the surrendering policyholder was taking his full quota, or even more than his full quota of the company's funds, heavy surrenders would be a serious matter. If, however, each surrendering policyholder is leaving something behind as an offset to his departure, heavy surrenders may not actually weaken the financial situation of the companies. With their premium rates, which would still be low after the projected increase of approximately 75¢ per thousand, the increased margin in the case of surrender is extremely desirable, even though it may increase the difficulty in writing insurance and reduce the annual amount written by these companies.

It is proposed to proceed in the matter of surrender values to bring such pressure to bear on the larger companies as will be found practicable, and in our own case it will probably be recommended that if not the full legal surrender charges, larger

surrender charges than the so-called compromise charges proposed by the Equitable shall be made.

In passing it may be noted that of 18 companies represented at a previous meeting 17 felt that higher surrender charges were desirable, although some who had recently increased their surrender charges, though not to the extent which they now felt to be desirable, indicated that a further change in the immediate future was not very likely. The one company that did not think surrender charges need be changed was the one with the most liberal surrender values of all, namely, the Mutual Benefit.

Whatever is done in the matter of our regular Ordinary surrender values it is planned to reduce the surrender values to the legal minimum allowed in the case of Intermediate and Industrial policies, the surrender charges in both cases to continue throughout the duration of the contracts. In the case of Intermediate policies it will be necessary in due course to consider the desirability of writing these as Industrial contracts, but should it not be felt practicable to proceed with this suggestion immediately, it would still seem proper to reduce the surrender values as from the beginning of 1935.

Increased premium rates are being studied very carefully in conjunction with the Metropolitan, while the Provident Mutual has already been in the picture. It is reasonably certain that both companies named, will join us in making increases in premiums, while increases have been definitely determined upon by the three large nonparticipating companies, their increases being expected to average about 75¢ per thousand. Two other participating companies with premium rates on the rather low side, namely, the Union Central and the Phoenix Mutual, will be brought into the discussion in due course, the Union Central having already intimated that it is prepared to consider very seriously a suggestion to adopt higher premium rates with a 3% instead of a 3½% reserve.

Among other changes which will probably be suggested in our policy forms is one providing that the payment of surrender values and loans may be deferred for six months instead of 90 days. In at least three states, namely, Massachusetts, Oregon, and Kentucky, it will be necessary to have a rider reducing the six months to 90 days. In Minnesota there is some question as both 60 days and 6 months are mentioned in the law. In this state we at present use 90 days, and have had our policies approved, so that presumably the six months could be used. Whether Massachusetts could be moved to extend its maximum to 6 months is doubtful, the bills offered in recent years in that state having had a very strong radical flavor. It is likely that Oregon and Kentucky would be willing to consider a change if suggested by the American Life Convention. ~~We should also cooperate as far as is necessary with the Connecticut companies in changing the Connecticut provisions, which have limit of 90 days but apply only to domestic companies.~~

EXHIBIT No. 806

[From files of The Prudential Insurance Co. of America]

NEW YORK LIFE INSURANCE COMPANY

OFFICE OF VICE PRESIDENT AND CHIEF ACTUARY

51 Madison Avenue, Madison Square, New York, N. Y.

JUNE 22, 1934.

Confidential.

Mr. JAMES F. LITTLE,

*Vice President and Actuary, Prudential Insurance Company,
Newark, N. J.*

DEAR MR. LITTLE: I am enclosing a memorandum and table dealing with the proposed changes in the basis of surrender charges contemplated for new policies to take effect as of some date in the future. It looks as if four of the larger New York companies will adopt this scale or approximately so and, in order to gather together and disseminate any information possible, I shall be glad to learn if your company will follow this scale, and, if not, what scale it will adopt.

Yours truly,

(Signed) ARTHUR HUNTER,
Vice President.

Encl.

[Notation: Mr. Howell's office.]

[Stamped: The Prudential Insurance Company of America.]

JUNE 14, 1934.

PROPOSED TABLE OF CASH SURRENDER VALUES

SURRENDER CHARGE

The surrender charge to be as follows with the limitations indicated:

Policy Year (n)	Surrender Charge per \$1,000		
	Basic Charge	Maximum Charge	Minimum Charge
1	2½% of reserve + \$25	None	\$35.
2	15% of reserve + \$25	35	None.
3	½ of reserve	25	None.
4	¼ of reserve	25	\$10 but not more than ½ of reserve.
5	⅓ of reserve	25	Do.
6	⅔ of reserve	25	Do.
7	⅔ of reserve	25	Do.
8	⅔ of reserve	25	Do.
9	⅔ of reserve	25	Do.
10	⅔ of reserve	25	Do.
11	9% of reserve	25	Do.
12	8% of reserve	25	Do.
13	7% of reserve	25	Do.
14	6% of reserve	25	Do.
15	5% of reserve	25	Do.
16	4% of reserve	25	\$8 but not more than ½ of reserve.
17	3% of reserve	25	\$6 but not more than ½ of reserve.
18	2% of reserve	25	\$4 but not more than ½ of reserve.
19	1% of reserve	25	\$2 but not more than ½ of reserve.
20			

The basic rule for the surrender charge from the 3rd to the 10th year may be expressed as $\frac{1}{n} \times$ reserve and for 11th to 19th years may be expressed as $(20-n) \% \times$ reserve, where n = policy year.

CASH SURRENDER VALUE

The cash surrender value shall then be expressed in integral dollars omitting odd cents (this will also apply to surrender values for 20th and subsequent years) except where the maximum surrender charge of \$35 for the second year or \$25 for third and subsequent years is made, in which case the cash surrender value shall be expressed to the higher dollar.

EXHIBIT No. 807

[From files of Mutual Life Insurance Co.]

SURRENDER AND LOAN VALUES

I. RE SUGGESTED RIGHT TO POSTPONE CASH AND LOAN VALUES FOR SIX MONTHS AFTER APPLICATION

After payment of three full years' premiums our policies provide for cash values, *obtainable on demand at any time* thereafter but not later than ninety days after default in payment of any subsequent premium. Loans within the limits of the cash values are also *obtainable on demand at any time*.

Our contracts are more liberal in this demand privilege than those of a majority of the companies—the policy usually guarantees cash values only at premium due dates, although the usual *practice* is to allow cash values at any time.

Contracts containing provisions similar to ours are issued by the following four U. S. companies:

Connecticut Mutual,
Northwestern,
The Phoenix Mutual, and
Union Central.

and the following two Canadian companies:

Canada Life, and
Sun Life,

seven companies in all, including the Mutual.

The following thirteen U. S. companies guarantee cash values only at premium due dates:

Aetna.	New England.
Connecticut General.	New York Life.
Equitable of U. S.	Penn Mutual.
John Hancock.	Provident.
Massachusetts Mutual.	Prudential.
Metropolitan.	Travelers.
Mutual Benefit.	

In addition, fourteen of these twenty companies have clauses in their policies giving the company the right to postpone paying the cash value or making the loan—thirteen of them for ninety days, one of them for sixty days. The six companies whose policies have no such delay period are:

Aetna.	Phoenix.
Mutual Benefit.	Sun of Canada.
New York Life.	Mutual Life.

The Federal Banking Holiday of March 1933 was followed by numerous State Embargoes on cash values and loans. Had it not been for these embargoes many life companies would have gone under, and once this had happened there is no saying where it would have stopped.

Depressions and panics happen more or less periodically, and in order to be in a better position to meet any such occurrences in the future, the actuaries of the above twenty companies have been in conference from time to time during the last twelve months.

It was the practically unanimous opinion of the representatives of all of these twenty companies that future policies should contain a clause giving the companies the right to delay paying the cash value, or making a loan (except to pay premiums to the company) for six months. The right would of course not be exercised except in emergency and it could then be exercised without the necessity of State Embargoes.

The above statement shows that thirteen companies already have a 90-day, and one other a 60-day delay period. These all favor the extension to six months. Of the remaining companies, which at present have no right to delay, the Aetna, Mutual Benefit, and New York Life are strongly in favor of the six months period, leaving the Phoenix, Sun, and Mutual Life still to render decisions on this point.

I feel strongly that we should adopt the six months' clause. Its adoption would put us in the same position as nearly every other company. It might help us at some time; it certainly would help some companies to weather future storms. Its adoption by us would not be a talking point against us in competition.

MAY 4, 1934.

II. RESUGGESTED INCREASE IN SURRENDER CHARGES AND EXTENSION TO 19TH POLICY YEAR

Our present cash values equal the full reserve less the following so-called "standard" surrender charges, per \$1,000 insured:

End Year:		End Year:	
3rd-----	\$15. 00	7th-----	\$7. 50
4th-----	12. 50	8th-----	5. 00
5th-----	10. 00	9th-----	2. 50
6th-----	10. 00	10th & later-----	0

In a few exceptional cases smaller surrender charges were made because of a Louisiana Law, now repealed.

These standard surrender charges apply to policies of all plans issued since January 1, 1907, although, at the same age at issue and duration, the reserve for a limited-payment-life policy exceeds that for a life policy, and that for an endowment policy exceeds that for a limited-payment-life policy.

On policies issued prior to 1907, our surrender charges were definite percentages of the reserves held; starting at 60% for the third year and running down to 10% for the 10th year, and reducing 1% each year thereafter to 1% for the 19th year; thereafter none.

The proposed new scale of surrender charges goes back to the percentage of reserve basis, but, in view of the greatly reduced expenses nowadays, starts with a surrender charge of one-third of the reserve for the third year and runs down to 10% for the 10th year; thereafter it is reduced 1% each year, finally reaching 1% for the 19th year, after which there is no charge. The surrender charge, however, is limited by the laws of several states to a maximum of \$25 per \$1,000 insured.

One of the reasons for deducting any surrender charge from the reserve is that it is some years before the accumulated premiums from the issues of any year less the accumulated expenses and death claims leave a balance sufficient to set up the tabular reserves for the outstanding business. Until this balance is struck, the deficiency in the tabular reserves may be considered as borrowed from surplus. As the expenses of procuring new business are largely in proportion to the premiums—the reserves also are in proportion to the premiums—surrender charges should be based on the reserves rather than on the sums insured.

The enormous demand for cash values and loans a few years ago, the breakdown in the country's banking system a year ago, and the fall in security prices, have shown us what might happen and have prompted the proposed increase in surrender charges. Incidentally, to picture the impossible, the maximum potential additional borrowing power of our policyholders is not very different from the total book value of all bonds and stocks we own.

To return to the possible, however, in the event of a recurrence of the troubles of the last few years, unless an embargo was placed on taking cash values and loans, any cash value we might have would soon be exhausted and we would have to sell securities at a loss—a loss to our persistent policyholders, not to those who left us.

Such a condition may very well arise in the future; perhaps not for many years, but it would be a number of years before the proposed changes—the right to delay payment for six months and greater surrender charges—would have much effect. The proposed new scale of surrender charges would have no effect until three years after adoption, because we pay no cash values until three premiums have been paid. Each year thereafter the aggregate reserves on these new policies would gradually increase, and, concurrently the older contracts would be going off our books.

In bad times, these higher surrender charges would be an offset to any losses on necessary sales of securities to meet loans and cash values, whereas in good times the increased charges would help us out in dividends to policyholders or contingency reserve or both.

If we did not adopt these higher charges we would have to keep large cash balances uninvested and we would also have to make substantial investments in readily convertible securities—such as Government Bonds—yielding small rates of interest, which of course would mean smaller policy dividends.

The two large New York companies which have the same premium rates as ours and which at present have the same scale of cash values as ourselves—the Equitable and the New York Life—are about to adopt the new scale of surrender charges. These two companies are perhaps our most frequent competitors because of the number of their agents.

The two large industrial companies—the Metropolitan and the Prudential—at present have smaller surrender charges than ours and are about to adopt even higher scales of surrender charges than those proposed.

The three Connecticut nonparticipating companies—Aetna, Travelers, and Connecticut General—are adopting higher surrender charges than those proposed, and are extending the period of such charges from 14 to 19 years.

The premium rates of these two industrial companies and these three Hartford companies are lower than ours, and to that extent they have the advantage over us in competition.

All companies, except the Equitable and New York Life, charge higher premiums than we do, but when net cost (premium minus dividend) is a deciding factor in

competition, some of the undernoted seven companies have an advantage over us based on the 1934 dividend scale. A comparison of their surrender charges (ordinary life, age 35) with out own present charges follows:

	End of Year—						
	3	4	5	6	7	8	9
Mutual.....	\$7.95	\$10.75	\$10.00	\$10.00	\$7.50	\$5.00	\$2.50
(a) Mass. Mutual (adopted 1933).....	14.00	12.00	10.00	8.00	6.00	4.00	2.00
(b) Northwestern (adopted 1932).....	14.00	12.00	10.00	8.00	6.00	4.00	2.00
(c) Provident (adopted 1932).....	14.00	12.00	10.00	8.00	6.00	4.00	2.00
(d) Penn (previously "O", Just adopting).....	10.00	10.00	10.00	8.00	6.00	4.00	2.00
(e) Conn. Mutual.....	8.00	4.00	0	0	0	0	0
(f) New England.....	0	0	0	0	0	0	0
(g) Mutual Benefit.....	0	0	0	0	0	0	0

In view of the recent adoption of new scales of surrender charges by companies (a), (b), (c), and (d), these companies are not prepared to change their scales so soon again. The Connecticut Mutual and the New England will probably adopt the above \$14, \$12, etc. scale, but the Mutual Benefit shows no disposition to make any change.

The two Canadian companies—Canada Life and Sun—will adopt a scale of charges at least as high as the proposed new scale.

The following comparison of premiums (O. L. page 35) and net costs, based on 1934 dividend scales, shows the extent to which these seven companies have an advantage in these matters over the Mutual Life:

	Premium	Average net cost 1st 20 Yrs.	Comparison with Mutual net cost
Mutual Life.....	\$28.11	\$20.97	-----
Mass. Mutual.....	26.35	20.96	-\$0.01
Northwestern.....	26.88	19.54	-1.43
Provident.....	22.89	18.93	-2.04
Penn.....	26.35	19.59	-1.38
Conn. Mutual.....	26.35	21.62	+0.65
New England.....	27.00	17.86	-3.11
Mutual Benefit.....	26.35	21.02	+0.05

Except in the case of the New England Mutual, Provident, Northwestern, and Penn the difference in the above net-cost comparison is negligible.

Shortly after the enactment of the New York Insurance Laws of 1906, which required, inter alia, that all policies issued thereafter guarantee loan values, a number of other states enacted similar laws, some of them requiring cash values as well as loan values.

The provision of the New York Law was that the loan should not be less than the policy reserve less a maximum surrender charge of \$25 per \$1,000 insured; the provisions of the other state laws were in many cases in line with this.

Another provision of these New York Laws, namely, that of limiting the expenses for new business, put the companies in an entirely different position, by reducing expenses and thereby increasing dividends to policyholders.

As a result of these changes, competition arose amongst the companies in the matter of cash values, and the companies did not awake to the fact that these cash values had gone too far until the depression hit us a few years ago.

With some exceptions, the small companies follow the larger companies, and when any conservative action is taken the larger companies have to lead the way.

A recent example of this is the increasing of the prices for annuities; the larger companies led the way and the smaller companies followed.

In the case of the proposed return to more conservative surrender values, the actuaries of the seven large companies—Aetna, Equitable, Mutual, New York Life, Metropolitan, Prudential, and Travelers—first of all held many conferences. The scale of proposed surrender charges is a compromise between the wishes of some of these seven, who wanted the maximum surrender charge of \$25 a thousand continued during the entire lifetime of the policy, and of the others, who felt that

because of the comparatively small proportion of policies kept in force for twenty years, the surrender charge might be terminated at the end of the 20th year.

The other thirteen companies mentioned above were brought into the later conferences, but it was felt that, as a number of them had so recently adopted the new scale of surrender charges mentioned above, it was improbable that they would be prepared to make another change immediately.

With the adoption by the larger companies of the proposed scale it is anticipated that some at least of these other companies will follow suit before very long.

The eighteen U. S. companies represented in these conferences were all eastern companies but the companies of the west and south have taken up the same question. These companies are represented by their actuaries in the American Institute of Actuaries, and at the October meeting of the Institute a report by a Committee on Cash Surrender Values was submitted which recommended much higher surrender charges than those at present effective in these other companies.

It may, therefore, be said that there is a general movement throughout the United States, and Canada as well, to go back to a more conservative scale of cash values than those now guaranteed in present contracts.

EXHIBIT No. 808

[From files of Mutual Life Insurance Co.]

[Stamped: V. P. and Actuary. May 9, 1934. W. A. Hutcheson.]

[Notation: 5/10/34—Left copy with Pres^t. W. A. H.]

[Notation: 5/11/34—Sent copy to G. K. S.]

[Notation: 5/15/34—Saw President, who saw Mr. Sargent yesterday, & he agrees to our going ahead on both points. He is sorry our 7 principal competitors are not going with us.]

NOTE.—Penciled notations enclosed in brackets.

PROPOSED CHANGES REGARDING CASH AND LOAN VALUES

Practically all companies of importance are adopting:

I. *A deferment period of six months* (optional with company) for payment of cash for surrenders and loans, and all of the companies larger than the Mutual, and many other companies, are adopting:

II. *A lower scale of cash and loan values.*

I consider it of fundamental importance that the Mutual should join the companies in question in both of these changes.

I. *Deferment Period.*—The fundamental question here is one of the ultimate safety of the Company and is largely a financial question.

The situation in the early months of 1933 illustrated the possibilities in times of stress. Notwithstanding the great excess of income over normal disbursements at that time, had it not been for government interference and help, R. F. C. loans, the general banking moratorium and the various state moratoria on cash surrenders and loans, the breaking point would have been reached.

In the next comparable crisis it is quite possible there may not be any such excess of normal income over normal disbursements, and government help cannot be relied upon.

If the Mutual Life were the one important company not having an optional deferment clause, it would at such a time be particularly vulnerable as being the only such company promising to pay cash on demand. It might easily be brought into a situation where it would be unable to fulfil its contracts.

II. *Amounts of Cash Values.*—The present scale is unjust to the continuing policyholder for the reason that the Company loses money on nearly all policies surrendered in the early policy years because premiums received are not sufficient to cover the cost of the risk carried plus the expenses, dividends, and surrender values paid.

In addition, high cash values also encourage surrenders and twisting because there is little and sometimes no loss to the policyholder in so doing.

The elimination of loss to the Company and the discouragement of surrenders would ultimately have an appreciable effect on increasing dividends, thus helping new business.

OBJECTIONS [G. K. S.'s 5/3/34]

Objections are raised to both proposals as follows:

I. *Deferment Period*.—That the six months deferred period, or, in fact, any deferment period whatever, would cause distrust amongst our present policyholders as to the Company's ability to carry out its existing policies.

NOTE.—Fourteen of the twenty principal companies already have 90 (or 80) day deferment periods in their contracts, and these companies, as well as some others, including the New York Life, which at present has no deferment period, are about to adopt the six months clause. [The other 6: Aetna, about 6 mos.; M. B., 6 mos.; M. L. 6 mos.; N. Y. L., 6 mos.; Phoenix, 6 mos.; Sun, 6 mos.]

NOTE.—Penciled notations enclosed in brackets.

Of our principal competitors in net cost (premiums minus dividends), all but the Mutual Benefit have 90 (or 80) day clauses. All seven, as well as the Mutual Benefit, are about to adopt the six months clause.

II. *Cash Values*.—That the lower cash values proposed would injuriously affect us as compared with our principal competitors in net cost.

In order of lowest net cost our seven principal competitors are listed below. Their present surrender charges are also indicated, and the years when they were adopted are stated:

	Surrender Charge	Year Adopted
1) New England.....	None.....	1909
2) Provident.....	} Increased scale to slightly less than Mutual's.....	1932
3) Northwestern.....		1932
4) Penn.....	Increased scale—slightly lower than Provident.....	1934
5) Mass. Mutual.....	Increased scale to same as Provident.....	1933
6) Mutual Benefit.....	None.....	1922
7) Conn. Mutual.....	A scale lower than Penn's new scale.....	1925

The New England Mutual and the Connecticut Mutual are contemplating the adoption of the recently adopted scale of the Provident, Northwestern, and Massachusetts Mutual.

As compared with the above seven companies our net cost (for 20 years on the 1934 dividend scales) was higher than the first four companies, practically the same as the fifth company, and lower than the sixth and seventh companies. In view of the above-indicated recent increases in surrender charges we would not be worse off competitively in the matter of cash values than we were before these companies made their recent changes.

The attached schedule shows for the above seven companies and for the Mutual Life: (1) the average net cost on the three principal plans, (2) the present scales of surrender charges, and (3) the amount of new business paid for in 1933.

In cases of competition with other companies, our agents do not always compete with those of any of the seven companies mentioned.¹

Even if the adoption of these suggestions resulted in our writing slightly less new business, I do not regard this as of importance comparable with the other question involved.¹

If we do not adopt these suggestions but continue our demand system of cash and loans while all the other important companies adopt a six months' deferment period, we would be singled out as a target for needy policyholders in time of stress. To insure safety, we would have to keep such an inordinately large proportion of our assets in cash and securities readily convertible at such a time that the interest yield (and consequently the policy dividends) would be so reduced that this method would ultimately do us more harm in competition than the adoption of the proposed delay period and the smaller scale of cash values.

I, therefore, urge the importance of our coming to an early decision as to adopting both suggested changes. The change could not take effect until the commencement of next year owing to the great amount of preliminary work required to be done.

(Signed) W. A. H.

¹ Penciled notation in margin of 2 paragraphs: "Changed 5/9/34 after seeing G. K. S."

EXHIBIT No. 809

[From files of Medical Information Bureau]

BYLAWS

I. MEDICAL INFORMATION BUREAU

MEMBERSHIP

A. Membership in the Medical Information Bureau shall consist of—

1. Regular Members, and
2. Associate Members.

1. *Regular Members*.—A Life Insurance Company to be eligible for admission as a Regular Member of the Medical Information Bureau—

1. Shall be of good repute.
2. Shall conduct its business on the level-premium, legal reserve plan.
3. Shall have its medical affairs administered by a Medical Director responsible for the confidential character of the interchange, so far as the business of his Company is concerned.

4. Shall pledge itself to maintain the confidential character of the Medical Information Bureau and to comply with all the rules and regulations thereof, as established by the Association of Life Insurance Medical Directors.

5. Shall have been in continuous successful operation as a level-premium company for at least ten years.

6. Shall have written at least \$5,000,000 of new business, exclusive of industrial policies, for each of the preceding five years, according to its report of the last preceding year, as published in the "Insurance Year Book," issued by the Spectator Company.

2. *Associate Members*.—A Life Insurance Company to be eligible for admission as an Associate Member of the Medical Information Bureau—

1. Shall be of good repute.
2. Shall conduct its business on the level-premium, legal reserve plan.
3. Shall have its medical affairs administered by a Medical Director, responsible for the confidential character of the interchange, so far as the business of his Company is concerned.
4. Shall pledge itself to maintain the confidential character of the Medical Information Bureau and to comply with all the rules and regulations thereof, as established by the Association of Life Insurance Medical Directors.

B. Medical Directors of Associate Member Companies shall not have the right as individuals to participate in the meetings of the Association of Life Insurance Medical Directors of America, but shall have the right to representation in the Association, in proportion to the amount of new business done by Associate Member Companies, compared with the amount done by Regular Member Companies. To this end the Associate Members may, on consultation with the Executive Council of the Association of Life Insurance Medical Directors and subject to its approval, organize themselves into groups. The number of delegates and the apportionment thereof among the different groups thus formed shall be determined by the Executive Council of the Association each three years, beginning with the year 1922. The delegates of each group shall be chosen by the group. Such delegates shall have the privilege of participating in the meetings, shall pay dues and shall have the right to vote.

C. Each Associate Member agrees to terminate interchange of information and withdraw from the Medical Information Bureau when requested to do so by the Association of Life Insurance Medical Directors of America or its Executive Council. Such action shall be taken only after presentation of charges and after due opportunity has been given to the Associate Member and its group officials to reply thereto.

D. This category of Associate Membership may be terminated as a whole by the Association of Life Insurance Medical Directors of America, only after one year's due notice to the Associate Members.

E. Nothing in this Bylaw shall prejudice the right of the Association to refuse at pleasure to recommend the application of any Company as a regular member or as an associate member of the Medical Information Bureau.

F. All applications for regular membership or associate membership in the Medical Information Bureau shall be sent to the Secretary of the Association and referred by him to the Executive Council for consideration. If approved by this Council, notice of the approval shall be sent to the Secretary of the Recording

& Statistical Corp., who, thereupon, shall communicate with each Company and request its approval or disapproval of the interchange. He shall then send the cards of such Companies as have assented to the interchange and omit the cards of the Companies that have not assented.

G. The territory of the United States and Canada shall be divided into certain Districts, as follows:

N. Northeastern: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut.

Y. New York.

A. Middle Atlantic: New Jersey, Delaware, Virginia, West Virginia, District of Columbia, Maryland.

Q. Pennsylvania.

G. Great Middle: Wisconsin, Michigan, Indiana, Ohio.

L. Illinois.

E. Southeastern: North Carolina, South Carolina, Georgia, Alabama, Florida, Mississippi, Tennessee, Kentucky.

W. Southwestern: Louisiana, Arkansas, Oklahoma, Texas.

P. Prairie: North Dakota, South Dakota, Nebraska, Kansas, Minnesota, Iowa, Missouri.

M. Mountain: Idaho, Montana, Wyoming, Nevada, Utah, Colorado, Arizona, New Mexico.

C. Pacific: Washington, Oregon, California, Alaska, Hawaii.

K. Dominion of Canada.

F. Foreign: All countries not mentioned above.

H. Each reporting Company, whether a regular member or an associate member, shall, in reporting to the Recording & Statistical Corp. an impairment, designate by means of a suitable symbol the territory in which that risk resides, so that when the cards are printed, it shall be possible to separate them according to their territory of origin. In this way members may secure cards covering only a limited district.

The information received from all members of the Medical Information Bureau, whether regular members or associate members, shall be so printed on the cards that it may be possible in any case to determine at once whether the information comes from a regular member or an associate member.

II

IMPAIRMENT NOTICES

Whenever an impairment is furnished by any Company, the information shall be regarded as confidential and the name of the Company from which the information is received shall under no circumstances be imparted to any one.

EXHIBIT No. 810

[From files of Medical Information Bureau]

REGULAR MEMBERS

Acacia Mutual Life,
Washington, D. C.

Aetna Life,
Hartford, Conn.

American United Life,
Indianapolis, Ind.

Amicable Life,
Waco, Tex.

Atlantic Life,
Richmond, Va.

Bankers Life Company,
Des Moines, Iowa.

Berkshire Life,
Pittsfield, Mass.

California-Western States Life,
Sacramento, Calif.

Canada Life,
Toronto, Ont.

Capitol Life of Colorado,
Denver, Colo.

Central Life Assurance Society,
Des Moines, Iowa.

Central Life of Illinois,
Chicago, Ill.

Colonial Life,
Jersey City, N. J.

Columbian National Life,
Boston, Mass.

Columbus Mutual Life,
Columbus, Ohio.

Commonwealth Life,
Louisville, Ky.

Confederation Life Assn.,
Toronto, Ont.

Connecticut General Life,
Hartford, Conn.

- Connecticut Mutual Life,
 Hartford, Conn.
 Continental American Life,
 Wilmington, Del.
 Continental Assurance Co.,
 Chicago, Ill.
 Crown Life,
 Toronto, Ont.
 Dominion Life,
 Waterloo, Ont.
 Equitable Life Assurance Society,
 New York, N. Y.
 Equitable Life of Canada,
 Waterloo, Ont.
 Equitable Life of Iowa,
 Des Moines, Iowa.
 Excelsior Life,
 Toronto, Ont.
 Federal Life,
 Chicago, Ill.
 Fidelity Mutual Life,
 Philadelphia, Pa.
 Franklin Life,
 Springfield, Ill.
 General American Life,
 St. Louis, Mo.
 Great Southern Life,
 Houston, Tex.
 Great West Life,
 Winnipeg, Man.
 Guarantee Mutual Life,
 Omaha, Neb.
 Guardian Life of America,
 New York, N. Y.
 John Hancock Mutual Life,
 Boston, Mass.
 Home Life,
 New York, N. Y.
 Home Life of America,
 Philadelphia, Pa.
 Imperial Life,
 Toronto, Ont.
 Jefferson Standard Life,
 Greensboro, N. C.
 Kansas City Life,
 Kansas City, Mo.
 Life Insurance Company of Va.,
 Richmond, Va.
 Lincoln National Life,
 Fort Wayne, Ind.
 London Life,
 London, Ont.
 Manhattan Life,
 New York, N. Y.
 Manufacturers' Life,
 Toronto, Ont.
 Maryland Life,
 Baltimore, Md.
 Massachusetts Mutual Life,
 Springfield, Mass.
 Metropolitan Life,
 New York, N. Y.
 Metropolitan Life,
 Ottawa, Ont.
 Metropolitan Life,
 San Francisco, Calif.
 Midland Mutual Life,
 Columbus, Ohio.
 Minnesota Mutual Life,
 St. Paul, Minn.
 Mutual Benefit Life,
 Newark, N. J.
 Mutual Life of Canada,
 Waterloo, Ont.
 Mutual Life,
 New York, N. Y.
 Mutual Trust Life,
 Chicago, Ill.
 National Life & Accident Ins. Co.,
 Nashville, Tenn.
 National Life of Canada,
 Toronto, Ont.
 National Life,
 Montpelier, Vt.
 New England Mutual Life
 Boston, Mass.
 New York Life,
 New York, N. Y.
 North American Life,
 Toronto, Ont.
 North American Life,
 Chicago, Ill.
 Northern Life,
 Seattle, Wash.
 Northwestern Mutual Life,
 Milwaukee, Wis.
 Northwestern National Life,
 Minneapolis, Minn.
 Occidental Life,
 Los Angeles, Calif.
 Ohio State Life,
 Columbus, Ohio.
 Old Line Life,
 Milwaukee, Wis.
 Oregon Mutual Life,
 Portland, Ore.
 Pacific Mutual Life,
 Los Angeles, Calif.
 Pan American Life,
 New Orleans, La.
 Penn Mutual Life,
 Philadelphia, Pa.
 Peoples Life,
 Frankfort, Ind.
 Philadelphia Life,
 Philadelphia, Pa.
 Phoenix Mutual Life,
 Hartford, Conn.
 Pilot Life,
 Greensboro, N. C.
 (The) Praetorians,
 Dallas, Tex.
 Provident Mutual Life,
 Philadelphia, Pa.
 Prudential Insurance Company,
 Newark, N. J.
 Reliance Life,
 Pittsburgh, Pa.
 Reserve Loan Life,
 Indianapolis, Ind.
 Security Mutual Life,
 Binghamton, N. Y.
 Shenandoah Life,
 Roanoke, Va.
 Southland Life,
 Dallas, Tex.

Southwestern Life,
Dallas, Tex.
Standard Life,
Montreal, Que.
State Life,
Indianapolis, Ind.
State Mutual Life,
Worcester, Mass.
Sun Life,
Montreal, Que.
Travelers' Insurance Company,
Hartford, Conn.
Union Central Life,
Cincinnati, Ohio.
Union Mutual Life,
Portland, Me.

United Life & Accident Ins. Co.,
Concord, N. H.
United States Life,
New York, N. Y.
Volunteer State Life,
Chattanooga, Tenn.
West Coast Life,
San Francisco, Calif.
Western and Southern Life,
Cincinnati, Ohio.
Woodmen of the World Life Ins.
Society,
Omaha, Neb.

ASSOCIATE MEMBERS

All States Life,
Montgomery, Ala.
Alliance Life,
Peoria, Ill.
American Bankers Ins. Co.,
Jacksonville, Ill.
American Life,
Birmingham, Ala.
American Mutual Life,
Des Moines, Iowa.
American National Ins. Co.,
Galveston, Tex.
American Reserve Life,¹
Omaha, Neb.
Ancient Foresters' Mutual Life,
Toronto, Ont.
Atlas Life,
Tulsa, Okla.
Bankers Life of Nebraska,
Lincoln, Neb.
Bankers National Life,
Montclair, N. J.
Boston Mutual Life,
Boston, Mass.
Business Men's Assurance Co.,
Kansas City, Mo.
Central States Life,
St. Louis, Mo.
Colorado Life Company,
Denver, Colo.
Columbia Life,
Cincinnati, Ohio.
Columbian Mutual Life,
Memphis, Tenn.
Conservative Life,
South Bend, Ind.
Conservative Life,
Wheeling, W. Va.
Continental Life,
Toronto, Ont.
Country Life,
Chicago, Ill.
Dominion of Canada General Ins. Co.,
Toronto, Ont.
Eastern Life,
New York, N. Y.
Empire Life,
Kingston, Ont.

Equitable Life,
Washington, D. C.
Eureka-Maryland Assurance Corp.,
Baltimore, Md.
Farmers and Bankers Life,
Wichita, Kan.
Fidelity Union Life,
Dallas, Tex.
George Washington Life,
Charleston, W. Va.
Girard Life,
Philadelphia, Pa.
Globe Life,
Chicago, Ill.
Great American Life,
San Antonio, Tex.
Great National Life,
Dallas, Tex.
Great Northern Life,
Chicago, Ill.
Guaranty Income Life,
Baton Rouge, La.
Gulf Life,
Jacksonville, Fla.
Home State Life,
Oklahoma City, Okla.
Illinois Bankers Life,
Monmouth, Ill.
Indianapolis Life,
Indianapolis, Ind.
Industrial Life,
Quebec, Que.
Interstate Life and Accident Co.,
Chattanooga, Tenn.
Kentucky Home Mutual Life,
Louisville, Ky.
Knights Life,
Pittsburgh, Pa.
LaFayette Life,
LaFayette, Ind.
Lamar Life,
Jackson, Miss.
La Sauvegarde Assurance Co.,
Montreal, Que.
Liberty Life of Kansas,
Topeka, Kan.
Liberty National Life,
Birmingham, Ala.

¹ American Standard Life, Washington, D. C.

- Life and Casualty Insurance Co.,
 Nashville, Tenn.
 Life Insurance Company of Detroit,
 Detroit, Mich.
 Lincoln Liberty Life,
 Lincoln, Neb.
 Maritime Life,
 Halifax, Can.
 Massachusetts Protective Life and Paul
 Rever Life,
 Worcester, Mass.
 Michigan Life,
 Detroit, Mich.
 Mid-Continent Life,
 Oklahoma City, Okla.
 Midland Life,
 Kansas City, Mo.
 Midland National Life,
 Watertown, S. D.
 Midwest Life,
 Lincoln, Neb.
 Monarch Life,
 Winnipeg, Man.
 Monarch Life,
 Springfield, Mass.
 Montreal Life,
 Montreal, Que.
 Monumental Life,
 Baltimore, Md.
 Mutual Life and Citizens' Assur. Co.,
 Ltd.,
 Montreal, Que.
 National Equity Life,
 Little Rock, Ark.
 National Fidelity Life,
 Kansas City, Mo.
 National Guardian Life,
 Madison, Wis.
 National Life Company,
 Des Moines, Iowa.
 National Old Line Ins. Co.,
 Little Rock, Ark.
 New World Life,
 Seattle, Wash.
 North American Reassurance Co.,
 New York, N. Y.
 Northern Life of Canada,
 London, Ont.
 Occidental Life,
 Raleigh, N. C.
 Ohio National Life,
 Cincinnati, Ohio.
 Peninsular Life,
 Jacksonville, Fla.
 Pioneer American Life,
 Houston, Tex.
 Policyholders National Life,
 Sioux Falls, S. D.
 Postal Life and Postal National Life,
 New York, N. Y.
 Protected Home Circle,
 Sharon, Pa.
 Protective Life,
 Birmingham, Ala.
 Provident Life and Accident Ins. Co.,
 Chattanooga, Tenn.
 Provident Life,
 Bismarck, N. D.
 Prudential Assurance Co., Ltd.,
 Montreal, Que.
 Puritan Life,
 Providence, R. I.
 Pyramid Life,
 Kansas City, Mo.
 Pyramid Life,
 Little Rock, Ark.
 Republic National Life,
 Dallas, Tex.
 Rockford Life,
 Rockford Ill.
 Royal Insurance Company, Ltd.,
 Montreal, Que.
 St. Louis Mutual Life,
 St. Louis, Mo.
 Saskatchewan Life,
 Regina, Sask.
 Scranton Life,
 Scranton, Pa.
 Seaboard Life,
 Houston, Tex.
 Security Life and Trust Co.,
 Winston-Salem, N. C.
 Security Mutual Life,
 Lincoln, Neb.
 Service Life,
 Omaha, Neb.
 Southeastern Life,
 Greenville, S. C.
 Sovereign Life,
 Winnipeg, Man.
 Standard Life,
 Pittsburgh, Pa.
 State Farm Life,
 Bloomington, Ill.
 State Reserve Life,
 Fort Worth, Tex.
 Sun Life of America,
 Baltimore, Md.
 T. Eaton Life,
 Toronto, Ont.
 Texas Life,
 Waco, Tex.
 Texas Prudential Insurance Co.,
 Galveston, Tex.
 Union Labor Life,
 New York, N. Y.
 United Benefit Life,
 Omaha, Neb.
 United Fidelity Life,
 Dallas, Tex.
 Victory Life,
 Topeka, Kan.
 Washington National Insurance Co.,
 Evanston, Ill.
 Western Empire Life,
 Winnipeg, Man.
 Western Life,
 Hamilton, Ont.
 Western Life,
 Helena, Mont.
 Western Reserve Life,
 San Angelo, Tex.
 Wisconsin Life,
 Madison, Wis.
 Wisconsin National Life,
 Oshkosh, Wis.

EXHIBIT No. 811

[From files of Union Central Life Insurance Co.]

[Notation: Mr. Helle.]

UNDERWRITING RULES RECOMMENDED (CORRECTED AS OF APRIL 1, 1936)

1. (a) If the applicant is up to, and including age 45, electro-cardiographic tracings and X-rays of chest shall be requested in all cases and also blood examinations whenever indicated if concurrent applications total \$100,000 or more, and this together with existing insurance brings the total on the life to over \$300,000; and provided further, that no such medical examination has been made within six months.¹

(b) If the applicant is between ages 46 and 59, inclusive, electrocardiographic tracings and X-rays of chest shall be requested in all cases if concurrent applications total \$100,000 or more, and this together with existing insurance brings the total on the life to over \$200,000; and provided further, that no such medical examination has been made within six months.¹

(c) If the applicant is age 60 or over, electrocardiographic tracings and X-rays of chest shall be requested in all cases if concurrent applications total \$50,000 or more, and this together with existing insurance brings the total on the life to over \$100,000; and, provided further, that no such medical examination has been made within six months.¹

2. Specialists and laboratories should be recommended by a committee from the Association of Life Insurance Medical Directors of America for use in connection with the above rule. The fee schedule is to be arranged by this Committee of Medical Directors and shall include fee for interpretation when desired. Use of the same report by several companies may require some adjustment of the amount to be paid by each company.

3. Statements should be obtained from the attending physician or surgeon in all cases of serious character, or where the information regarding any previous illness is incomplete or doubtful.

That in all cases where the insurance applied for is \$50,000 or more of life insurance or where the application includes monthly disability income of at least \$250.00:

4. A company should require the completion of the application, declarations, and examinations on its own blanks, including applicant's signature, but may accept photo copies of examination directly from the Medical Division of another company provided the examination is not over thirty days old and the examiner is one of its regular appointees or the examiner of the original company is one in whom the second company has confidence. Such reports should comply with the second company's rules for its own examiners as to date and points to be covered. The photo copy of the medical examination should be accompanied by photographic copies of all other papers pertaining to the case and advice as to the final action of the company forwarding such papers, and to what other companies photostats are sent. Where a company does not desire to furnish photographic copies of inspection reports, and a report is unfavorable, it should give full warning to the company to which it is furnishing the papers or other confidential information.

Where any company accepts reports not coming directly from the laboratory to the medical department of the Home Office, they should so report to other companies when forwarding copies of such reports.²

4 (a) No statement by the applicant or agent that the amount of insurance to be placed will be less than the amount represented by current applications, and no request for a reduction in the amount of a current application, should be permitted to affect the company's procedure during the period when final action is pending.²

5. Thorough inquiry should be made where an application or other source of information discloses examination or treatment by a physician within five years unless satisfactory explanation by the medical examiner accompanies the medical report.

6. For personal coverage the amount should in general not exceed what 20% of the income would purchase at net cost on the Whole Life plan.

7. For business insurance the amount should, in general, not exceed five times the applicant's salary, bonus and profit earned from the business. In special cases more than five times may be justified if the personal insurance carried is not large. When the applicant is old, the five times rule can easily be excessive.

¹ As revised effective January 1, 1936.

² New.

8. When an applicant is the owner or owns a substantial interest in a corporation, it is difficult to distinguish between business and personal insurance. In those cases the total insurance on the life should be maintained within the limits for personal insurance.

9. The amount of insurance already in force, pending and applied for, must be known. To get authentic information on these points, it is proposed to establish a central bureau where the information will be available.

10. Accurate information must be developed as to the personal finances of the applicant. If business insurance is involved, where the corporation is owned or controlled by the applicant, a recent financial statement of the corporation should be procured. Many large losses have occurred by disregarding this important requirement.

11. A legitimate need for the insurance should be established.

12. Applications should not be finally acted upon until time has elapsed so that complete investigation can be made.

13. All applications should contain questions inquiring as to the amount of insurance, disability, double indemnity, and Accident and Health insurance carried by the applicant; in force, pending, and contemplated. The completion of answers to those questions should be insisted upon. The underwriting of the life, the disability and the double indemnity insurance should be separately considered at the Home Office.

EXHIBIT No. 812

[From files of Union Central Life Insurance Co.]

REPORT OF EXECUTIVE COMMITTEE ON UNDERWRITING LARGE RISKS FOR THE YEAR ENDING MARCH 31, 1939

The Executive Committee herewith submits its report for the year ending March 31, 1939 as called for under the By-Laws.

The Committee held a meeting on March 10th, 1939, at which it authorized the Recording Bureau to forward to the companies an adequate supply of a pamphlet covering the rules and procedure in a form which, it is hoped, will be of assistance as a reference for those who handle the procedure in the Home Offices and as an instruction manual to persons newly assigned to such work. [Reed. C. H.]

Mr. J. M. Laird, Vice-President of the Connecticut General Life Insurance Company, has been duly elected Chairman, effective April 1, 1939. [Voted for him. C. H.]

Dr. R. L. Rowley, Mr. F. I. McGraw, and Mr. R. D. Murphy have retired from the Executive Committee upon the expiration of their terms and in due course Mr. Laird will make appointments to fill these vacancies.

There is enclosed herewith the Recording Bureau's summary of transactions for the year.

Respectfully submitted.

(Signed) R. D. MURPHY,

Chairman, Executive Committee on Underwriting Large Risks.

APRIL 30, 1939.

NOTE.—Penciled notations enclosed in brackets.

MARCH 31, 1939.

RECORDING BUREAU

	Year End- ing 31 Mar. '39	Total Pe- riod of Bureau
Companies in Bureau.....	34	-----
Lives Master Carded.....	3, 608	59, 814
Application Reports Received.....	7, 127	55, 518
of which are new lives.....	3, 608	28, 859
Action Reports Received.....	7, 250	56, 603
Photostats Sent Out.....	16, 085	124, 367

SUMMARY ALL BUREAU CASES

Previous Report—In force 1 Apr. '38.....		\$3, 578, 179, 000
In force 16 May '32 reported in current year.....		170, 000
Adjusted In force 1 Apr. '38.....		3, 578, 349, 000
Applied for April 1, 1938, to March 31, 1939.....	\$486, 099, 000	
Declined.....	\$123, 751, 000	
Postponed (less issues of prior postponements).....	15, 588, 000	
Recalled.....	1, 115, 000	
	140, 454, 000	
Net Approvals.....		345, 645, 000
Terminations and Decreases:		
Not Taken.....	\$73, 825, 000	
Death Claims.....	27, 626, 000	
All Others.....	151, 757, 000	
Total Terminations.....		253, 208, 000
Net Increase In force.....		92, 437, 000
In force 1 Apr. '39.....		3, 670, 786, 000

SUMMARY OF \$500, 000 OR OVER CASES

Previous Report—In force 1 Apr. '38.....		\$672, 179, 000
In force 16 May '32 reported in current year.....		20, 000
In force on cases transferred to \$500,000 during year.....		18, 270, 000
Adjusted In force 1 Apr. '38.....		690, 469, 000
Applied for April 1, 1938, to March 31, 1939.....	\$72, 336, 000	
Declined.....	\$31, 371, 000	
Postponed (less issues of prior postponements).....	3, 082, 000	
Recalled.....	550, 000	
	35, 003, 000	
Net Approvals.....		37, 333, 000
Terminations and Decreases:		
Not Taken.....	\$5, 146, 000	
Death Claims.....	4, 319, 000	
All Others.....	22, 437, 000	
Total Terminations.....		3, 902, 000
Net Increase In force.....		5, 431, 000
In force 1 Apr. '39.....		695, 900, 000

EXHIBIT No. 813

[From files of Union Central Life Insurance Co.]

JAMES D. CRAIG, *Actuary*FREDERICK H. ECKER, *President*METROPOLITAN LIFE INSURANCE COMPANY,
New York City, August 18, 1932.

DEAR SIR: The following Companies are members of the Recording Bureau as of the above date:

Aetna Life Insurance Company.
 American Central Life Insurance Company.
 Bankers Life Company.
 Berkshire Life Insurance Company.
 Canada Life Assurance Company.
 Columbian National Life Insurance Company.
 Connecticut General Life Insurance Company.
 Connecticut Mutual Life Insurance Company.
 Equitable Life Assurance Society of the U. S.
 Equitable Life Insurance Company of Iowa.
 Fidelity Mutual Life Insurance Company.
 Great West Life Assurance Company.
 Guardian Life Insurance Company of America.
 John Hancock Mutual Life Insurance Company.
 Home Life Insurance Company.
 Lincoln National Life Insurance Company.
 Manufacturers Life Insurance Company.
 Massachusetts Mutual Life Insurance Company.
 Metropolitan Life Insurance Company.
 Missouri State Life Insurance Company.

Mutual Benefit Life Insurance Company.
 National Life Insurance Company of Vermont.
 New England Mutual Life Insurance Company.
 New York Life Insurance Company.
 North American Reassurance Company.
 Northwestern Mutual Life Insurance Company.
 Pacific Mutual Life Insurance Company of California.
 Pan-American Life Insurance Company.
 Penn Mutual Life Insurance Company.
 Phoenix Mutual Life Insurance Company.
 Provident Mutual Life Insurance Company.
 Prudential Insurance Company of America.
 State Mutual Life Assurance Company.
 Sun Life Assurance Company of Canada.
 Travelers Insurance Company.
 Union Central Life Insurance Company.

Very truly yours,

(Signed) J. D. CRAIG,
Chairman, Committee-Underwriting Large Risks.

EXHIBIT NC. 814

[From files of The Equitable Life Assurance Society]

NOTE.—This letter, and the printed folder attached, constitute the full report of the Committee.

OCTOBER 29, 1931.

Mr. WALTER E. WEBB,
Chairman, Executive Committee,
Association of Life Agency Officers,
Chicago, Illinois.

DEAR SIR: You appointed a Committee about a year ago, to cooperate with a Committee from the Life Underwriters Association of the City of New York, to consider the evil practice generally known as "Twisting" and to effect, if possible, an agreement among companies to cooperate in a plan for discouraging the replacement of life insurance of one company by new insurance in another company.

At the outset of this cooperation a meeting called by the New York City Association was attended by representatives of many of the life-insurance companies that are admitted to place life insurance in the State of New York. Agency Officers, General Agents, Managers, and Underwriters were in attendance. Subsequently, your Committee and that of the above-named Association held several joint meetings, most of which were held during the Fall, Winter, and Spring of 1930 and 1931.

A plan was agreed upon by the Joint Committee, and printed copies were sent to all of the men who were in attendance at the original general meeting, and to some others. That plan included certain recommendations for its operation which some of the companies thought it would be difficult to carry into execution. Accordingly, another general meeting was held, and out of it grew the recommendation that the Joint Committee continue to function and that a modified plan be printed and submitted to the various companies which had participated in any of the discussions.

We submit to you and to the members of the Life Agency Officers Association the final form of the agreement, and beg to report that the twenty-three companies, the names of which are separately attached, have signed the agreement and that only seven of them have made any exceptions to the plan as it stands in the printed form. The exceptions are minor—in the main, they are intended either to effect a harmony with certain well-established practices of those companies or to exclude Term Insurance from the provisions of the agreement. The exceptions are endorsed on the forms which were executed respectively by these seven companies and are a part of the permanent record. It is expected that other companies which have been considering the Joint Committee's plan will execute the agreement in the near future.

There is no evil practice in the field of life-insurance underwriting which needs to be more definitely killed than that of the improper replacement of the business of one company by another company. Usually twisted business is accepted by the new company without knowledge of the fact that a similar amount has just

been surrendered in another company. Recognizing the difficulty of proving such illegitimate transactions, it is certainly worth while to have as well planned cooperation to suppress it as can be established without running into serious operating difficulties. It is heartening to all of us, who have worked earnestly throughout the past year, to be able to report the wholehearted support of twenty-three important companies in a program which is at least based upon a desire to solve this problem cooperatively—the only way it can be solved. Like many other movements, this one has a small beginning. This is reflected not only in the small number of companies relatively that are in the agreement at present, but in the terms of the agreement as well. It must be noted, however, that the amount of business which is transacted by the signatory companies is much larger with respect to the total production of life insurance than would be indicated by the number of companies in respect to the total number of operating companies in the United States. Furthermore, the plan has not been submitted heretofore to those companies in the United States and Canada which are not now transacting new business in the State of New York.

We ask, therefore, that the agreement be passed among the members of this Association who are in attendance at this time and that it be now read. The Joint Committee is unanimous in the opinion that other companies represented here today, without limitation as to geographical operations, will want to consider their entrance into the agreement so that the widest possible support of the life companies of the United States and Canada may be given to the program and an opportunity offered to cooperate in the elimination of a great evil.

Respectfully submitted.

GEORGE H. CHACE,
K. A. LUTHER,
M. A. LINTON,
FRANK L. JONES, *Chairman,*
Members of the Committee.

[Stamped: Dept. F. L. J. Mar. 28, 1939. A. McN.]

LIST OF SIGNATORY COMPANIES

Aetna Life Insurance Company.
Bankers Life Company.
Berkshire Life Insurance Company.
Brooklyn National Life Insurance Company.
Connecticut General Life Insurance Company.
Connecticut Mutual Life Insurance Company.
Equitable Life Assurance Society of the U. S.
Equitable Life Insurance Company of Iowa.
Fidelity Mutual Life Insurance Company.
Guardian Life Insurance Company of America.
Home Life Insurance Company.
John Hancock Mutual Life Insurance Company.
Judea Life Insurance Company.
Manhattan Life Insurance Company.
Massachusetts Mutual Life Insurance Company.
Metropolitan Life Insurance Company.
Mutual Benefit Life Insurance Company.
National Life Insurance Company.
New England Mutual Life Insurance Company.
Penn Mutual Life Insurance Company.
Phoenix Mutual Life Insurance Company.
Provident Mutual Life Insurance Company of Philadelphia.
The Travelers Insurance Company.
[Notation: Judea—Changed to Eastern.]
[Stamped: Dept. F. L. J. Mar. 28, 1939. A. McN.]

EXHIBIT No. 815

[From files of The Equitable Life Assurance Society]

[Stamped: Dept. F. L. J. Mar. 28, 1939. A. McN.]

PLAN FOR DISCOURAGING THE REPLACEMENT OF LIFE INSURANCE OF ONE COMPANY BY NEW INSURANCE IN ANOTHER COMPANY

The life-insurance companies subscribing to the following plan do so in the belief that steps should be taken to put a check upon the cancellation of outstanding life insurance to be replaced by new insurance. The problem is a growing one because of current economic conditions and the pressure for new business. To solve it would give a sense of security to the men in the field, would create a more wholesome atmosphere surrounding the writing of new insurance, would reduce lapsation and thus tend to more effective conservation of outstanding insurance and to a stabilization of the business.

Measures to curb the practice of substitution will protect every agent who serves his clients constructively and attempts to build a secure foundation for his own future. It is the substantial men in the business who more than any others suffer from the activities of those who for selfish reasons may attempt to tear down their work by urging policyholders to replace old insurance by new.

The question was brought to the foreground by the calling of two conferences by the Life Underwriters Association of the City of New York, attended by representatives of the Association and of companies doing business in New York. The following plan has been formulated by the joint committee as a result of these conferences. It is being sent to all members of the Life Agency Officers Association in the hope that it may be approved by a large proportion of the membership. The plan is as follows:

(1) That companies who have not already done so, insert in the next revision of their application form, a question as to whether the new insurance is to take the place of outstanding insurance either in the same company or in another company. The question should be in a part signed by the applicant and also in the agent's certificate so that he may state his knowledge in the matter. Several companies have found by experience that the insertion of the question in the medical part of the application leads to more accurate information. Although each company is at liberty to place the question in either part signed by the applicant, the committee believes that the medical part is the better one for the purpose.

(2) The companies adhering to this plan welcome the greatest degree of mutual cooperation in connection with cases where substitution has either taken place or where there are indications that it may take place. Either company involved in a substitution case is encouraged to communicate at once with the other company to the end that steps may be taken to safeguard the interests of the policyholder and the companies. In some instances a company may find that the interest of the policyholder requires that the new policy be taken up and the transaction cancelled.

(3) When a company shall receive an application for new insurance which apparently will replace outstanding insurance in another company, it shall promptly notify the other company and shall delay the issuance of the new insurance for at least two weeks so that it may hear from the other company and the other company may have opportunity to conserve its business. If a company shall learn that a replacement of its insurance has been made or is contemplated in another company, it shall feel at liberty at once to notify the company involved.

(4) Each company will keep a record of the amount and kind of insurance in cases where inter-company substitution, either attempted or consummated, has occurred involving in any way its own insurance. By so doing it will be possible in the course of time to gauge the extent of the evil of this kind of substitution and to have a better idea than at present of the changes that could advantageously be made in the plan herein formulated. In keeping the record of cases there should be separate classifications for incoming and outgoing insurance.

(5) Companies are encouraged to take effective steps to educate the members of their agency force to the advantages of retaining outstanding insurance and to the disadvantages of surrendering it to be replaced by a like amount of new insurance in their own or other companies. A large proportion of such transactions results from lack of information and understanding on the part of the policyholder; and wrong and often misleading advice on the part of the agent.

We believe that the foregoing plan presents an opportunity for the business of life insurance to move forward in the control of a growing and harmful practice. It is a forward step for the institution of life insurance to take and it will become

increasingly clear to all concerned that the companies are not going to build up their business at each other's expense.

(6) Any company having subscribed to this plan may withdraw its adherence by giving written notice of its intention to withdraw to the Secretary of the Life Agency Officers Association, Hartford, Connecticut. Furthermore, any company wishing to adhere to this plan in general but unwilling at present to subscribe to the entire program may do so by noting at the bottom of this form the exceptions it desires to record.

On behalf of the Joint Committee representing the Life Underwriters Association of the City of New York and the Association of Life Agency Officers:

Leon G. Simon	George A. Kederich	George H. Chace
John C. McNamara, Jr.	William F. Atkinson	K. A. Luther
Edward J. Sisley	Arthur P. Woodward	M. A. Linton
Julian S. Myrick, Chairman		Frank L. Jones, Chairman

We hereby subscribe to the foregoing plan and will endeavor to carry out its provisions.

Date -----

By -----
President.

NOTE HERE YOUR EXCEPTIONS TO THE PLAN

EXHIBIT No. 816

[From files of The Equitable Life Assurance Society]

[Stamped: Dept. F. L. J. Mar. 28, 1939. A. McN.]

AMENDMENT TO PLAN FOR DISCOURAGING THE REPLACEMENT OF LIFE INSURANCE OF ONE COMPANY BY NEW INSURANCE IN ANOTHER COMPANY

As a member of the signatory group, the undersigned company accepts the following amended paragraph (3) as a substitute for paragraph (3) of the present agreement. We understand that from and after the date of our signature to this amendment we are to operate under the new provision.

Amended paragraph (3) to read as follows:

"When a company shall receive an application for new insurance which apparently will replace outstanding insurance in another company, it shall promptly notify the other company, *including in its notification the name of the agent submitting the application*, and shall delay the issuance of the new insurance for at least two weeks so that it may hear from the other company and the other company may have opportunity to conserve its business. If a company shall learn that a replacement of its insurance has been made or is contemplated in another company, it shall feel at liberty at once to notify the company involved."

Name Signatory Company

Address

Signature of Company Officer or Representative

Date ----- 1934

EXHIBIT No. 817

[From files of The Equitable Life Assurance Society]

[Stamped: Dept. F. L. J. Mar. 29, 1939. A. McN.]

SIGNATORY COMPANIES WITH NAMES OF PERSONS IN CHARGE OF INTERCOMPANY CORRESPONDENCE

*Acacia Mutual Life Insurance Company, Washington, D. C.

Mr. La Noue Matta, Assistant to the President.

*Aetna Life Insurance Company, Hartford, Connecticut.

Mr. R. F. Fay, Agency Assistant.

- American Life Insurance Company, Detroit, Michigan.
Mr. Claris Adams, Executive Vice President.
- *American United Life Insurance Company, Indianapolis, Indiana.
Mr. Harry C. Byers, Assistant Secretary.
- *Amicable Life Insurance Company, Amicable Life Building, Waco, Texas.
Mr. W. A. Blair, Assistant Secretary.
- *Atlantic Life Insurance Company, Richmond, Virginia.
Dr. Frank P. Righter, Medical Director.
- *Atlas Life Insurance Company, Tulsa, Oklahoma.
Mr. C. H. Menge, Actuary.
- *Bankers Life Company, Des Moines, Iowa.
Mr. F. I. McGraw, Underwriting Secretary.
- *Bankers National Life Insurance Company, 26 Park Street, Montclair, N. J.
Mr. William J. Sieger, Superintendent of Agencies.
- *Berkshire Life Insurance Company, Pittsfield, Massachusetts.
Mr. R. H. Davenport, Secretary.
- *California Western States Life Insurance Company, Sacramento, California.
Mr. Walter C. Kennedy, Chief Underwriter.
- *Canada Life Assurance Company, Toronto, Canada.
Mr. J. Q. Strong, Secretary, Agency Department.
- *Central Life Assurance Society (Mutual), Des Moines, Iowa.
Dr. Martin I. Olson, Medical Director.
- *Colonial Life Insurance Company of America, 921 Bergen Avenue, Jersey City, N. J.
Mr. Richard B. Evans, Assistant to the Vice President.
- *Colorado Life Company, Patterson Building, Denver, Colorado.
Mr. R. K. Dunn, Manager of Application Department.
- *Columbian Mutual Life Insurance Company, Memphis, Tennessee.
Mr. George W. Clayton, President.
- *Columbian National Life Insurance Company, Boston, Mass.
Mr. Norman M. Hughes, Vice President and Secretary.
- *Confederation Life Association, 12 Richmond Street, East Toronto, Canada.
Mr. J. H. Birkenshaw, Associate Actuary.
- *Connecticut General Life Insurance Company, Hartford, Connecticut.
Mr. G. E. Bulkley, Vice President.
- *Connecticut Mutual Life Insurance Company, Hartford, Connecticut.
Mr. H. H. Steiner, Secretary.
- Continental American Life Insurance Company, DuPont Building, Wilmington, Delaware.
Mr. Daniel E. Jones, Secretary.
- Eastern Life Insurance Company, 303 Fourth Avenue, New York City, N. Y.
Mr. Harry Yarin, Superintendent of Agencies.
- *Equitable Life Assurance Society of the U. S., 393 Seventh Avenue, New York City.
Mr. W. M. Donohue, Supt. of Policy Issue and Service Department.
- *Equitable Life Insurance Company of Iowa, Des Moines, Iowa.
Mr. J. E. McPherson, Assistant Secretary.
- *Equitable Life Insurance Company of Washington, D. C., 816-14th Street, Northwest, Washington, D. C.
Mr. Clyde R. de Haas, Chief of Ordinary Department.
- *Fidelity Mutual Life Insurance Company, Philadelphia, Pennsylvania.
Mr. C. T. Feddeman, Agency Assistant (In connection with replacement of Fidelity Insurance).
Mr. R. F. Tull, Secretary (In connection with applications coming in to New Business Department, indicating replacement of insurance of other companies).
- *Franklin Life Insurance Company, Springfield, Illinois.
Mr. F. R. Jordan, Actuary.
- *General American Life Insurance Company, St. Louis, Missouri.
Mr. O. J. Burian, Assistant Actuary.
- *George Washington Life Insurance Company, Kanawha Street, Charleston, West Virginia.
Dr. Hugh G. Thompson, Medical Director.
- *Girard Life Insurance Company, Philadelphia, Pennsylvania.
Mr. Clark T. Botting, Superintendent of Agencies.
- *Great-West Life Assurance Company, Winnipeg, Manitoba.
Mr. E. A. Brock, Secretary.

- Great Western Insurance Company, Des Moines, Iowa.
Mr. J. Kenneth Davis, Actuary.
- *Guarantee Mutual Life Company, Omaha, Nebraska.
Mr. A. D. Hunter, Assistant Secretary.
- *Guaranty Life Insurance Company, Kahl Building, Davenport, Iowa.
Mr. Harry A. Bryan, Auditor.
- *Guardian Life Insurance Company of America, 50 Union Square, New York City.
Mr. Frederic H. Bachur, License and Records Division.
- *Hercules Life Insurance Company,¹ Chicago, Illinois.
Mr. Carl L. Odell, President.
- Home Life Insurance Company, 256 Broadway, New York City.
Mr. W. S. Gaylord, Vice President and Secretary.
- *Home Life Insurance Company of America, Independence Square, Philadelphia, Pa.
Mr. Bernard L. Connor, Secretary.
- *Imperial Life Assurance Company, 20 Victoria Street, Toronto, Canada.
Mr. George H. Hunt, Superintendent of Agencies.
- Jefferson Standard Life Insurance Company, Greensboro, North Carolina.
Mr. D. J. Tribble, Underwriter (Replacement of insurance of other companies).
- Mr. Karl Ljung, Manager, Conservation Department (Replacement of Jefferson Standard Insurance).
- *John Hancock Mutual Life Insurance Company, 197 Clarendon Street, Boston, Mass.
Mr. Charles J. Diman, Secretary.
- *Liberty National Life Insurance Company, Birmingham, Alabama.
Mr. Ralph W. Beeson, Secretary-Treasurer.
- *Lincoln National Life Insurance Company, Fort Wayne, Indiana.
Mr. George M. Bryce, Assistant Secretary.
- *Manhattan Life Insurance Company, Madison Avenue at 60th Street, New York City.
Mr. Vincent W. Edmondson, Superintendent of Field Service.
- *Manufacturers Life Insurance Company, Toronto, Canada.
Mr. R. B. Wallace, Conservation Department.
- Massachusetts Mutual Life Insurance Company, 1295 State Street, Springfield, Mass.
Mr. Michael Marchese, Assistant Secretary, Underwriting Department.
- *Metropolitan Life Insurance Company, 1 Madison Avenue, New York, New York.
For Metropolitan Policies where policyholder is located in Canada:
Mr. John Wilson, Manager, Ordinary Department, Canadian Head Office, Ottawa, Ontario, Canada.
For Metropolitan Policies where policyholder is located in Pacific Coast Territory which comprises the following States: California, Colorado, Idaho, Montana, Oregon, Utah, and Washington:
Mr. Louis J. Schmoll, Assistant Secretary, 600 Stockton Street, San Francisco, California.
For entire United States Territory outside of States controlled by Pacific Coast Head Office:
Mr. Vincent D. Manahan, Manager, Ordinary Application Division
1 Madison Avenue, New York, New York.
- *Midland Mutual Life Insurance Company, Columbus, Ohio.
Mr. J. Charles Rietz, Vice President and Actuary.
- *Midland National Life Insurance Company, Watertown, South Dakota.
Mr. J. J. Bell, President.
- *Minnesota Mutual Life Insurance Company, St. Paul, Minnesota.
Mr. H. J. Cummings, Vice President and Superintendent of Agencies.
- Mutual Benefit Life Insurance Company, Newark, New Jersey.
Mr. Charles E. Brewer, Assistant Secretary.
- *Mutual Life Insurance Company of N. Y., 34 Nassau Street, New York City.
Mr. Willard T. Johns, Manager of Policyholders' Service Bureau.
- *Mutual Trust Life Insurance Company, 135 South La Salle Street, Chicago, Illinois.
Mr. Harry J. Nelson, Agency Secretary.
- *National Fidelity Life Insurance Company, Kansas City, Missouri.
Mr. Ralph H. Rice, Jr., Vice President.

¹ Taken over by the Washington National Insurance Company of Chicago, Ill. (Signatory).

- National Guardian Life Insurance Company, Madison, Wisconsin.
Mr. George A. Boissard, President.
- *National Life and Accident Insurance Company, Inc., Nashville, Tennessee.
Mr. E. B. Stevenson, Jr., Vice President.
- National Life Insurance Company, Montpelier, Vermont.
Mr. L. P. Brigham, Superintendent of Agencies.
- *New England Mutual Life Insurance Company, 87 Milk Street, Boston, Mass.
Mr. Walter Tebbetts, Vice President.
- New World Life Insurance Company, New World Life Building, Seattle, Washington.
Mr. Edward Base, Assistant Secretary.
- New York Life Insurance Company, 51 Madison Avenue, New York, N. Y.
Mr. S. S. Buxton, Assistant Secretary.
- *North American Life Assurance Company, 112-118 King Street, Toronto, Ontario, Canada.
Mr. E. J. Harvey, Superintendent of Agencies.
- *North American Life Insurance Company of Chicago, 36 So. State St., Chicago, Ill.
Mr. H. O. Cedarholm, Manager, Conservation Department.
- *Northwestern Mutual Life Insurance Co., 720 East Wisconsin Ave., Milwaukee, Wisc.
Mr. J. N. Lochemes, Assistant Secretary.
- *Occidental Life Insurance Company, Professional Building, Raleigh, North Carolina.
Mr. R. A. Gibson, Assistant Secretary and Underwriter.
- *Ohio State Life Insurance Company, Columbus, Ohio.
Mr. Joseph K. Bye, Secretary.
- *Old Line Life Insurance Company of America, 623 North Second Street, Milwaukee, Wis.
Mr. M. F. Ryan, Treasurer (In charge of Conservation).
- *Oregon Mutual Life Insurance Company, 1029 S. W. Alder Street, Portland, Oregon.
Mr. R. R. Brown, Vice President and Actuary.
- *Pacific Mutual Life Insurance Company, Los Angeles, California.
Mr. L. W. Morgan, Junior Vice President.
- *Pan-American Life Insurance Company, New Orleans, Louisiana.
Mr. Charles J. Mesman, Manager Agency Analysis Bureau.
- *Peninsular Life Insurance Company, Jacksonville, Florida.
Mr. W. W. Alderman, Assistant Secretary.
- Penn Mutual Life Insurance Company, Philadelphia, Pennsylvania.
Mr. A. B. Furner, Assistant to Agency Vice President.
- *Philadelphia Life Insurance Company, 111 North Broad Street, Philadelphia, Pa.
Mr. E. R. Hurst, Director of Agency Service.
- *Phoenix Mutual Life Insurance Company, Hartford, Connecticut.
Mr. Howard Goodwin, Second Vice President.
- *Pilot Life Insurance Company, Greensboro, North Carolina.
Dr. H. F. Starr, Vice President and Medical Director.
- *Policyholders' National Life Insurance Company, Sioux Falls, South Dakota.
Mr. S. H. Witmer, President.
- *Protective Life Insurance Company, Birmingham, Alabama.
Mr. Alex C. Wellman, Vice President.
- *Provident Life and Accident Insurance Company, 727 Broad Street, Chattanooga, Tenn.
Dr. Charles R. Henry, Medical Director.
- *Provident Mutual Life Insurance Company, 46th and Market Streets, Philadelphia, Pa.
Mr. F. P. Todd, Vice President and Insurance Supervisor.
- *Puritan Life Insurance Company, Providence, Rhode Island.
Mr. Earl M. Pearce, Assistant Secretary.
- *Reliance Life Insurance Company, Pittsburgh, Pennsylvania.
Mr. T. J. McKenna, Vice President.
- *Seaboard Life Insurance Company, Houston, Texas.
Mr. Burke Baker, President.
- *Security Mutual Life Insurance Company, Binghamton, New York.
Mr. F. D. Russell, President.
- *Standard Life Insurance Company, Pittsburgh, Pennsylvania.
Mr. J. D. Van Scoten, Vice President.

- State Farm Life Insurance Company, Bloomington, Illinois.
Mr. J. H. Miller, Chief Underwriter.
- *State Mutual Life Assurance Company, Worcester, Massachusetts.
Mr. Farnham B. Goulding, Manager of Conservation Division.
- *Sun Life Assurance Company of Canada, Montreal, Canada.
Mr. J. B. Mabon, Associate Actuary.
- *Sun Life Insurance Company of America, Baltimore, Maryland.
Mr. S. Z. Rothschild, Third Vice President.
- *The Travelers Insurance Company, Hartford, Connecticut.
Mr. L. M. Robotham, Secretary of the Life Department.
- *Union Central Life Insurance Company, Cincinnati, Ohio.
Mr. Clyde W. Ferguson, Agency Secretary.
- Union Labor Life Insurance Company, 570 Lexington Avenue, New York, N. Y.
Mr. Morris Pike, Vice President-Actuary.
- *Union Mutual Life Insurance Company, Portland, Maine.
Mr. A. Thomas Lehman, Actuary.
- *United Life and Accident Insurance Company, 24 South Main Street, Concord, N. H.
Mr. John V. Hanna, President and Actuary.
- *United States Life Insurance Company, 101 Fifth Avenue, New York City.
Mr. George M. Selser, Assistant Secretary.
- *Volunteer State Life Insurance Company, Chattanooga, Tennessee.
Mr. H. H. Mansfield, Agency Secretary.
- *Washington National Insurance Company, Chicago, Illinois.
Mr. James F. Houlihan, Supt. of Agencies, Ordinary Department.
- *Western and Southern Life Insurance Company, Broadway and Fourth Street, Cincinnati, Ohio.
Mr. R. P. Edwards, Manager, Ordinary Issue Department.
- *Yeomen Mutual Life Insurance Company, Des Moines, Iowa.
Mr. Arthur W. Larsen, Actuary.

NOTE.—The companies that are indicated by the asterisk above are also signatory to amended Paragraph 3, which effects an exchange of the names of agents in replaced cases.

7/6/38.

EXHIBIT No. 818

[From files of The Equitable Life Assurance Society]

NEW YORK LIFE INSURANCE COMPANY

51 Madison Avenue, Madison Square, New York, N. Y.

L. SETON LINDSAY, *Vice President*

OCTOBER 6, 1931.

Mr. FRANK L. JONES,
Vice President, The Equitable Life Assurance Society,
393 Seventh Ave., New York, N. Y.

MY DEAR MR. JONES: I have your letter of October 2nd.

You will recall that when I wrote you under date of June 25th I mentioned that the President of the Company would be willing to sign the agreement after the Equitable, Mutual Life, Metropolitan, Prudential, Aetna, and Travelers had also agreed to sign.

On the list that you give in your letter of October 2nd we find all these companies have signed excepting the Mutual Life and the Prudential.

Before taking the matter up with the President again I would like to know if the Prudential and the Mutual Life are refusing to sign, or if they have since signed.

You appreciate that we are heartily in accord with the idea of the preventing of lapses and twisting of business, but dislike to sign an agreement of the kind submitted unless it is being signed by all the other principal companies.

Very truly yours,

(Signed) L. SETON LINDSAY,
Vice President.

[Stamped: Dept. F. L. J. Mar. 28, 1939. A. McN.]

[Notation: Return to twisting folder.]

OCTOBER 13, 1931.

MR. L. SETON LINDSAY,
Vice President, New York Life Insurance Company,
51 Madison Avenue, Madison Square, New York City, New York.

MY DEAR MR. LINDSAY: On my return today I had your letter of October 6th. I cannot say definitely that either the President of the Prudential or the President of the Mutual Life has seen the suggested plan for the elimination of substituted or twisted business.

Our Committee has letters, however, from Officers of both companies in which they state they are in full sympathy with the plan, but that they will not sign the forms at this time. I quote from Second Vice President Sargent's letter:

"We would prefer, however, to reserve to ourselves freedom of action and be in a position to handle each case on its merits, and, if necessary, to go further than the Committee program contemplates. On the other hand, we can conceive of circumstances where it might not be to the interest of the Companies involved to carry out the Committee program in every detail."

From Vice President Munsick's letter, I quote the following:

"We are in thorough sympathy with the desire expressed that the substitution of new insurance for protection that has been in force for some time be discouraged in every way * * * we believe that every case that presents itself for consideration can be adjusted by the companies interested, and that the gesture of a formal subscription to a plan over the signature of the President of the company is unnecessary."

I hope that you and President Buckner in a reconsideration of this plan will think it advisable to go along with the companies that have already affixed their signatures to the agreement. I have just heard from President Linton who has talked with the Presidents of the Massachusetts Mutual and of the John Hancock and he thinks that they are both favorable to the plan. Accordingly, the Committee has just sent the necessary forms to them for their consideration. I understand that neither of these Presidents had seen the agreement at the time that Mr. Linton spoke to them, which was probably last week.

As I stated to you in my previous letter, the Committee will make a report at Chicago the last week of this month.

With personal regards,

Yours truly,

(Sgd.) FRANK L. JONES,
Vice President.

C.

[Letterhead of New York Life Insurance Company]

OCTOBER 15, 1931.

MR. FRANK L. JONES,
Vice President, The Equitable Life Assurance Society,
393 Seventh Ave., New York, N. Y.

MY DEAR MR. JONES: I have just had a talk with the President of our Company in regard to the contents of your letter of October 13th.

We are both anxious to cooperate in every way with the program of saving insurance already in force and preventing twisting of business.

As you are probably aware we have gone to some length to make our views on this subject public. The best evidence of this was the recent address by our Director, Mr. Calvin Coolidge, which as you undoubtedly know was broadcast all over the country. I enclose copy of the address and draw your special attention to the part marked on Page 7.

On the other hand, we rather agree with the views of the Prudential as quoted in your letter and would much prefer to adjust each case with the Company concerned, rather than to go through the gesture of a formal subscription to a plan over the signature of the President of the Company.

If there is any doubt in the minds of any of the other companies with regard to our stand on the question of twisting, I will be very glad to supply the meeting you refer to with copies of Mr. Coolidge's address.

With personal regards and assuring you that while we have not signed the agreement you submitted, you may count on us to cooperate in preventing business being twisted from one company to another, believe me

Very truly yours,

(Signed) L. SETON LINDSAY,
Vice President.

EXHIBIT No. 819

[From files of The Equitable Life Assurance Society]

[Notation: Dept. F. L. J. Mar. 28, 1939. A. McN.]

EXCEPTIONS MADE BY SOME OF THE SIGNATORY COMPANIES IN THE MATTER OF
THE REPLACEMENT OF LIFE INSURANCE

The following companies have noted on the printed form the exceptions which follow their names:

Aetna Life Insurance Company.—Eliminates Term Insurance.

American Central Life Insurance Company.—"We have followed the practice set out above for the past few years, and we are particularly glad that the companies who are willing to follow a similar plan are doing so under an organized agreement.

"With reference to paragraph three, we prefer to notify the company involved and hold up action on our application in accordance with the necessities of the case involved.

"While this practice has been followed by us for the past few years, with all companies, and we expect to so continue such practice, our acceptance of this agreement has to do only with the companies who have signed a similar agreement."

Amicable Life Insurance Company.—"An exception we desire to make to this plan is that we shall communicate the information only to such Companies as have placed their signatures to the agreement."

Atlantic Life Insurance Company.—"Paragraph (3) above stipulates that the issue of the policy will be delayed for 'at least two weeks.' We believe that in most cases two weeks is too long; we shall delay the issue for such period as in the circumstances may appear reasonable."

California-Western States Life Insurance Company.—"That the provisions of this agreement shall not apply to term insurance but that they shall apply to the so-called life expectancy and long term modified life policies."

The Canada Life Assurance Company.—"For mechanical reasons we would like, for the time being, to omit the question referred to in Section 1 from our 'Agent's Report,' although in due course we perhaps may overcome the said difficulties. Meantime we are in agreement with the principle of having the question in the Agent's Report as well.

"Again referring to Section 1 we prefer to have the question in the first part signed by the applicant rather than in the medical part."

Also eliminates Term Insurance.

Connecticut Mutual Life Insurance Company.—"Referring to Section #3, the Connecticut Mutual would modify its acceptance on the following basis:

"When a company shall receive an application for new insurance which apparently will replace outstanding insurance in another company, it shall promptly notify the other company and shall delay the issuance of new insurance until it has heard from the other company or until it is satisfied the other company has had sufficient opportunity to conserve its business. If a company shall learn that a replacement of its insurance has been made or is contemplated in another company, it shall feel at liberty at once to notify the company involved."

Continental American Life Insurance Company.—" (1) That this agreement is not applicable to the replacement of term insurance by life or endowment insurance; (2) That we do not agree to delay the issuance of our policy beyond the expiration of the grace period of the policy that is to be replaced; and (3) That, in view of the limited territory in which we operate, we shall delay the issuance of such new insurance for only one week, instead of for two weeks, wherever the Home Office of the other company is situated within overnight mail distance from our Home Office."

Equitable Life Insurance Company of Iowa.—"Except under (3) we desire to modify the fixed period of two weeks, so that this is left to the discretion of the issuing company in each individual case. The notifying company usually receives a prompt reply to inquiries and then ample time is granted for a final adjustment."

Home Life Insurance Company.—"As respects Paragraph (1) of the Plan, we have at present under consideration a revised form of application in which it is proposed to insert a question as to whether the new insurance is to take the place of outstanding insurance either in this or in another company.

"A final decision as to whether such question shall be included in the application or in the medical part of the application has not been reached and we reserve the privilege of reaching such a decision on that point as seems most advisable to us.

"We agree unreservedly to Paragraph (2).

"We agree to Paragraph (3) with the exception of the provision that the issuance of the new insurance shall be delayed for at least two weeks. Our only objection is to a certain specified and designated period binding, without exception, upon this company. This does not mean that we shall not afford any other company involved what, in our best judgment under the particular circumstances, is ample opportunity of conserving its business.

"As respects Paragraph (4) we have found that a complete and detailed record of every case entails some practical points, as a result of which our record has not been full and complete. We reserve in this respect the privilege of keeping a record which in our best judgment serves the end in view in a practicable manner."

John Hancock Mutual Life Insurance Company.—"We shall not, of course, wait two weeks in every case, as no doubt the other company concerned, as well as ourselves, when we are the company affected, will be able to settle the matter without waiting that long."

The Lincoln National Life Insurance Company.—"That the provisions of this agreement shall not apply to Short Term Policies but shall apply to so-called Life Expectancy and Long Term Modified Life Policies."

Massachusetts Mutual Life Insurance Company.—"While we do not have the question in our application blank, we require that each application be accompanied by a signed statement to the effect that the insurance applied for is not to replace insurance in this or any other Company."

Minnesota Mutual Life Insurance Company.—

"1. Term policies excepted in our relations with other companies also excepting Term policies.

"2. Exception also made with respect to any other company which does not subscribe to plan."

General American Life Insurance Company.—

"1. Exclude the replacement of Term Insurance by more permanent forms from replacements prohibited.

"2. We reserve the right to release our policy in less than two weeks if, in our judgment, a shorter period of time is sufficient.

"3. We do not agree to do more than to reciprocate the commitments of the other companies; in other words we do not want to agree to notify another company and hold up our policy for two weeks where the company has not become a signatory company to this agreement."

Mutual Benefit Life Insurance Company.—

"(1) We do not favor any question regarding substitution either in the applicant's part of application or in the medical report.

"(2) At present we are not inclined to delay the issuance of new insurance for more than one week, pending an attempt on the part of another company to save business which is about to be terminated.

"(3) We are willing to keep a record of such twisting cases as are indicated: (i) by answers to the inquiry in the Agent's Report, (ii) by correspondence with other companies. A more thorough investigation of such transactions would entail much more work than we consider profitable at the present time."

National Life Insurance Company.—

"1. The National has for many years contained the question referred to on its application blank, but not in the medical part. When the next supply of medical forms is printed, this question will be included.

* * * * *

"4. This Company has not at present developed the correct method for keeping a record of the amount and kind of insurance in cases where intercompany substitution is either attempted or consummated. When such a plan is developed, it will be made a part of Company practice."

National Life and Accident Insurance Company, Inc.—"We do not believe that the provisions hereof should be construed as applying to Term Insurance."

New England Mutual Life Insurance Company.—

"1. The New England Mutual has no present intention of changing the question regarding replacements from the Agent's questionnaire to Part II of the application.

"2. The New England Mutual believes that the replacement of term insurance does not create the same obligation as when permanent insurance is replaced, and retains the right to pay its regular commission scale."

Old Line Life Insurance Company of America.—

"1. That the provisions of this agreement should not apply to Short-Term Policies but shall apply to so-called Life Expectancy and Long-Term Policies.

"2. We desire to modify the fixed period of two weeks so that it is left to the discretion of the issuing company in each individual case. The notifying company usually receives a prompt reply to inquiries and then ample time is granted for a final adjustment."

Pacific Mutual Life Insurance Company.—

"1. Upon the first revision of our Life application form a statement will be included in Part I of the application over the signature of the applicant. We prefer to include the statement in this form rather than in the medical portion of the blank.

"3. We prefer to modify the fixed period of two weeks so that discretion can be used in each individual case, giving a reasonable period of time in which to make the necessary investigation. Our experience has been that most cases can be adjusted well within the two-week period.

"Ten-year and shorter period term policies are excluded from the agreement

"The form of record card submitted may not be adopted, but our Company will install a system of keeping records suitable to our facilities."

Pan-American Life Insurance Company.—"I have not, in the agreement itself, made any exception to the plan, but I have in mind that if such an arrangement is entered into, it should be reciprocal and should not be binding upon companies, as it applies to those companies that are unwilling to execute the agreement in question."

Penn Mutual Life Insurance Company.—"We understand that Term Insurance is not included in the operation of this plan."

Provident Mutual Life Insurance Company of Philadelphia.—"In cases where new life or endowment insurance in our Company is to take the place of outstanding term insurance in another company, we do not feel that it would be necessary for us to delay the issuance of the new insurance for the two weeks' period. We shall probably issue the insurance, and then notify the other company that we have done so."

Sun Life Insurance Company of America.—"No reservations, except that this Company will reciprocate any exceptions noted by other signatory companies."

Colorado Life Company.—

"A. Instead of two weeks in the absolute, such length of time as seems to us reasonable in relation to the case involved.

"B. Term insurance.

"C. The policies of some age where the loan value is of considerable amount and which shall have been borrowed in full and where we do not have reason to believe that the loan will be paid off."

Gibraltar Life and Accident Insurance Company.—

"A. Instead of two weeks in the absolute, such length of time as seems to us reasonable in relation to the case involved.

"B. Term insurance.

"C. The policies of some age where the loan value is of considerable amount and which shall have been borrowed in full and where we do not have reason to believe that the loan will be paid off."

Great-West Life Assurance Company.—

"1. We desire to modify the fixed period of two weeks and to feel free to issue in a shorter period when sufficient opportunity has been given the other company to conserve its business.

"2. In other respects there are no reservations, except that we shall reciprocate any exceptions noted by other signatory companies."

EXHIBIT No. 820

[From files of The Equitable Life Assurance Society]

Six-Year Record of Intercompany Replacements

COMPANY No. 8

Company	Year	Opportunities Offered to Other Companies		Opportunities to Save Our Business Offered by Other Companies			
		Cases	Amount	Cases	Amount	Saved	% Saved
No. 8 [Prov. Mutual Life]	1933	181	\$1,926,100	90	\$1,501,546	\$733,046	48.8
	1934	146	1,335,250	131	1,908,250	695,000	36.4
	1935	78	785,505	118	1,930,194	1,265,139	65.5
	1936	39	471,524	170	1,153,558	550,000	47.7
	1937	56	438,500	97	1,155,060	493,160	42.7
	1938 (8 mos.)	40	294,500	49	812,179	538,712	66.3
No. 30 [Conn. Mutual Life]	1933	448	3,587,977	116	1,496,683	553,363	26
	1934	419	2,303,516	159	2,614,460	1,330,750	33
	1935	322	2,336,202	178	1,513,750	1,089,950	41
	1936	298	1,850,787	191	2,225,956	1,305,704	59
	1937	208	1,369,236	149	2,092,300	951,780	45
	1938 (8 mos.)	179	1,151,045	150	1,131,220	495,200	44
No. 50 [Lincoln Natl. Life]	1933	82	1,096,181	103	981,300	458,300	46
	1934	100	881,528	71	597,580	318,000	53
	1935	60	516,500	39	292,000	98,000	34
	1936	52	334,500	33	231,182	154,000	67
	1937	43	415,137	43	229,700	108,000	47
	1938 (8 mos.)	54	47,750	41	607,522	504,114	83
No. 29 [Eq. Life Assurance Society]	1933	663	4,373,580	553	11,531,874	6,246,411	54.1
	1934	668	3,388,846	473	8,644,376	3,012,339	34.8
	1935	381	1,782,914	442	6,169,449	2,562,412	41.5
	1936	267	1,215,572	288	3,157,820	1,261,656	39.9
	1937	378	1,862,707	324	4,081,025	2,102,856	51.5
	1938 (8 mos.)	332	1,386,519	237	2,440,436	1,153,665	47.3
No. 18 (Mutual Life Ins. Co.)	1933	361	6,620,328	803	7,365,421	3,395,007	46.1
	1934	361	7,457,555	650	7,090,105	2,592,791	36.6
	1935	197	4,441,536	590	6,310,438	2,730,938	43.3
	1936	197	5,982,445	556	5,334,917	2,756,896	51.7
	1937	219	4,316,647	460	3,431,318	1,488,388	43.4
	1938 (8 mos.)	138	3,058,829	190	3,035,679	1,808,980	59.6
No. 61 [Bankers Life Co.]	1933	11	135,500	96	703,299	273,680	38.9
	1934	28	154,900	101	941,305	306,593	32.5
	1935	46	140,200	70	346,125	167,945	48.5
	1936	43	164,550	57	286,692	142,301	49.6
	1937	36	135,500	43	330,343	170,843	56.8
	1938 (8 mos.)	27	162,500	34	168,800	94,000	55.6

NOTE.—Penned notations enclosed in brackets.

[Stamped: Dept. F. L. J. Mar. 28, 1939. A. McN.]

EXHIBIT No. 821

[From files of The Equitable Life Assurance Society]

Consolidated Report of Replacement Figures for the Eight Months Period Ending August 31, 1938

SIGNATORY COMPANIES

Company ¹	Opportunities Offered Other Companies		Opportunities Received From Other Companies				
	Total Cases	Amount of Our Applica- tion	Total Cases	Conserved		Lost	
				Cases	Amount	Cases	Amount
No. 1.....	14	\$334,400					
2.....			2			2	\$11,000
3.....	154	993,736	137		\$1,477,074		
4.....	9	104,130	28	14	472,000	14	153,077
5.....	4	16,000	5	3	3,000	2	2,000
6.....			3			3	5,000
7.....			22	16	115,500	6	31,500
8.....	34	273,500	41	18	448,533	23	217,467
9.....			2	1	1,000	1	1,000
10.....	19	89,250	31	13	154,000	18	121,000
11.....	119	667,830	69	11	154,000	58	796,765
12.....	22	106,140	71	30	262,583	41	337,417
13.....	4	5,500	5	3	18,250	2	14,000
14.....	1	2,000					
15.....	8	70,206	5	1	1,000	4	15,010
16.....	176	2,958,137	59		\$812,956		
17.....	12	14,067	12	5	15,082	7	15,598
18.....	119	2,974,909	121	49	1,023,980	72	886,532
19.....			7	1	2,000	6	18,500
20.....	94	1,276,972	100	28	463,068	70	1,197,404
21.....	6	57,500	8	2	8,000	6	33,500
22.....	2	2,324	1			1	1,000
23.....	16	106,300	14	4	32,204	8	54,205
24.....	17	130,200	35	11	105,667	24	273,750
25.....	7	33,500	4	1½	19,000	2½	13,041
26.....			2	1	40,000	1	5,000
27.....	2	7,000	24	6	57,471	13	46,526
28.....	31	111,000	80	25	287,100	55	320,230
29.....	243	1,056,661	167	58	822,567	109	1,014,067
30.....	142	1,054,365	117	40	407,200	77	545,920
31.....	3	25,000	9	3	7,000	6	36,000
32.....	1	1,000	9	2	5,200	7	9,000
33.....	3	15,000	5	1	5,000	4	9,500
34.....	22	431,500	1			1	10,000
35.....	6	49,200	7	1	1,000	6	83,500
36.....	33	204,500	16	5	48,000	11	104,250
37.....	9	18,400	40	16	8,800	24	24,086
38.....	3	9,000					
39.....	16	46,000	8	3	3,000	5	7,500
40.....	35	483,541	48	19	231,000	29	486,750
41.....			2			2	6,000
42.....	1	1,000					
43.....	3	40,000	3	2	7,000	1	1,000
44.....	5	27,000	4	1	1,000	3	3,000
45.....	170	2,138,921	134	37	725,480	91	1,228,300
46.....	58	331,500	217	98	1,205,546	119	1,021,023
47.....	60	860,682	27	9½	66,331	17½	119,000
48.....	87	1,226,000	137	63	779,413	74	772,687
49.....	149	753,044	147	77	307,850	70	223,411
50.....	36	442,845	25	10	449,114	15	64,137
51.....	92	851,040	134	48	157,058	86	559,782
52.....	9	20,500					
53.....	57	610,963	31	9	20,000	22	166,591
54.....	2	15,000	1	1	1,000		
55.....	7	58,000	15	5	18,000	10	34,076
56.....	14	17,685	2	1	1,900	1	1,000
57.....	2	30,000					
58.....	69	845,259	48	19	303,000	29	459,500
59.....	15	29,550	6	3	7,000	3	45,000
60.....	2	11,000	18	6	42,200	12	114,700
61.....	25	133,500	28	14	49,500	14	70,800
62.....	113	837,885	47	14	332,500	33	461,700
63.....	9	44,500	13	6	68,000	7	54,503
Total.....	2,371	\$23,027,642	2,354	815	\$12,043,227	1,328	\$12,312,302

¹ 13 Companies reported no replacements; 17 Companies submitted no reports.² Opportunities received but no account of distribution between conserved and lost.

*Consolidated Report of Replacement Figures for the Eight Months Period Ending
August 31, 1938—Continued*

NONSIGNATORY COMPANIES

Company	Opportunities Offered Other Companies		Opportunities Received From Other Companies				
	Total Cases	Amount of Our Applica- tion	Total Cases	Conserved		Lost	
				Cases	Amount	Cases	Amount
No. 10.....	3	\$9,500	6	3	\$8,000	3	\$25,000
11.....	23	20,207	11	1	50,000	10	75,167
12.....	8	20,340	12	3	9,000	9	40,000
17.....	6	2,000	12	6	16,342	6	9,181
18.....	19	83,920	69	29	785,000	40	340,167
20.....	11	132,225	15	6	162,500	9	76,000
24.....	6	54,000	16	6	21,000	10	54,000
29.....	89	329,858	70	21	331,098	49	272,704
30.....	37	96,680	33	12	88,000	21	90,100
32.....	2	6,000	6	3	2,350	3	2,000
36.....	16	85,000	7	3	11,000	4	52,500
45.....	24	101,000	24	5	63,000	17	79,000
46.....	21	31,895	93	36 ⁷ / ₂₄	572,500	56 ¹ / ₂₄	247,108
49.....	98	316,021	164	62	152,382	102	184,485
51.....	20	30,000	93	30	53,242	63	79,994
53.....	16	81,143	27	11	49,500	16	53,010
58.....	11	94,400	16	4	7,000	12	96,500
59.....	1	1,382	2	1	2,500	1	5,000
61.....	2	29,000	6	5	44,500	1	4,000
62.....	39	153,183	22	8	179,500	14	148,901

[Stamped: Dept. F. L. J. Mar. 28, 1939. A. McN.]

EXHIBIT No. 822

[From files of North American Reassurance Co.]

AMERICAN CENTRAL LIFE INSURANCE COMPANY

Indianapolis

Office of HERBERT H. WOOLEN, *President*

Established 1899

MAY 15, 1929.

MR. LAWRENCE M. CATHLES,
*President, North American Reassurance Company,
New York City, New York.*

DEAR FRIEND CATHLES: As I told you in Biloxi, Henry Buttolph was then in Fort Wayne for a conference with Arthur Hall. The conference resulted in their concluding that we were all indulging in practices in the reinsurance business which were very detrimental to the business and to our several companies and that a group of us should meet for the purpose of devising means for doing away with these abuses, if possible.

Therefore, I am today inviting you and Arthur, as Presidents of your companies, to be my guests at luncheon at the Edgewater Beach Hotel on Wednesday, June 5th, at 12:30, for the purpose of discussing these problems in a broad and very general way.

Following the luncheon, I suggest that we adjourn to a more general meeting where the discussion could be more detailed and made to include our associates whom we had brought to Chicago with us. At such a meeting our Company would be represented by Harry Wilsco, Henry Buttolph, and me. I suggest that if you approve of this arrangement you bring persons in similar executive authority in your organization, to the end that such conclusions as we may be able to arrive at may be fully understood and faithfully carried out. At this general meeting it would be my hope that each of us would, in a strictly impersonal way, present all of the practices in the business which seem to him to be destructive and at the same time present such constructive ideas as seem to him to be proper.

I am aware that this small group does not begin to cover the reinsurance field. However, my thought is that if we could agree upon a program, we might deem it advisable to call a more general meeting in the hope that that program, modified

if necessary, might come to be regarded as the general code of behavior for this branch of the business. On the other hand, I feel that it would be extremely inadvisable to call a larger meeting until after our three companies had attempted to arrive at a general understanding.

I have suggested this date because the Insurance Commissioners, the Disability Committee of the American Life Convention, and the Institute of Actuaries are all meeting in Chicago at this time and place, and I assume that it would be more convenient for us to meet there than elsewhere.

Yours very sincerely,

(Signed) HERBERT M. WOOLEN.

HMW MGC.

MAY 17, 1929.

Mr. HERBERT M. WOOLEN,
*President, American Central Life Insurance Company,
Indianapolis, Indiana.*

DEAR MR. WOOLEN: I was very much interested to receive today your letter of the 15th instant. All of your suggestions appeal to me and I shall be most happy to lunch with you and Mr. Hall at the Edgewater Beach Hotel June 5th.

Unless Board meetings of the Institute of Actuaries interfere, Arthur Coburn will attend the suggested adjourned meeting with me.

I appreciate your letter very much.

Very truly yours,

President.

LMC: D.

EXHIBIT No. 823

[From files of North American Reassurance Co.]

[Notation: July 3, 1929. By Herbert M. Woollen, Pres., American Central Life Ins. Co.]

[Copy]

Mr. EMMETT C. MAY,
*President, Peoria Life Insurance Company,
Peoria, Illinois.*

DEAR MR. MAY: This letter is my attempt to carry out my promise to you to report the results of the recent meeting with reference to reinsurance questions. I had an understanding with the representatives of the other companies present that I would send them a copy of this letter, and that they in turn would write you anything further that seemed to be required. You will doubtless hear from them shortly.

The meeting was opened at the Keenan Hotel on the morning of June 26th and adjourned to the Country Club, where luncheon was served and the meeting carried to its conclusion.

The Lincoln National was represented by Messrs. Hall and McAndless; the North American Reassurance was represented by Messrs. Cathles, Coburn, and Oden, while the American Central was represented by Messrs. Buttolph, Wilson, and myself.

The representatives of the companies first indulged in a general discussion of the reinsurance business and the necessity of its being put into a more orderly condition, the delegations unanimously agreeing that there was a crying need for change and improvement. They also pledged themselves to use their best efforts toward bringing them about.

After thus clearing the general atmosphere, the following sixteen subjects were suggested as being the things in the business most needing consideration:

1. Rate cutting.
2. D. I. Rate Cutting.
3. Disability Rates and Commissions.
4. Giving out M. I. B. Information—directly or indirectly.
5. Furnishing actuarial and accounting Services by Reinsurance Companies.
6. Furnishing Underwriting Service by Reinsurance Companies.
7. Coinsurance—Guaranteeing the Dividends of Participating Companies.
8. Traveling Representatives from the Reinsurance Company.
9. Supplying the forms, manuals, and other data in an organized way.
10. Underbidding on substandard business—either by changing the rating of the underwriting department or by changing the rate.

11. Refunding mortality savings.
12. Refunding taxes on reinsurance premiums.
13. Twisting of each other's accounts—directly or indirectly.
14. Issuing D. I. without life reinsurance.
15. Issuing disability without life reinsurance.
16. Handling of applications under aviation and submarine operation.

These items were disposed of as follows:

Item 7—Was laid aside as not being a practical subject for discussion at this time.

Item 6—Was laid aside for the same reason.

Items 12 and 13—Were discussed generally and both reserved for more detailed discussion at a meeting to be held later, as will be explained further on in this letter. However, it was agreed that Item 13 presented a very serious problem and that the practice of twisting accounts must be stopped and that satisfactory means for bringing about that result must be devised at the later meeting.

Items 1, 2, 3, and 10—Were discussed more or less together, and it was agreed that rates, commissions, and underwriting practices should be made as nearly uniform and standard as possible and that the practice of cutting and underbidding would immediately be discontinued.

Item 4—Was given a great deal of consideration, and it was agreed that companies must exert every possible effort to avoid giving out, indirectly or directly, M. I. B. information. However, it seemed to be the opinion of those men present that it was entirely legitimate and in conformity with the rules of the M. I. B. so far as we understand them, for us to give to our clients, upon inquiry, such suggestions as might enable those clients to avoid bad underwriting. Thus, would we avoid loading our clients and ourselves with bad business. This is a very difficult subject upon which to write and much more will have to be said about it at our next meeting.

The fear was expressed, generally, that unless the companies were much more careful about their practices in connection with this item serious consequences would result to them sooner or later.

Items 5, 6, and 9—Were discussed in a general way, and I believe that I am right in saying that it was the consensus of opinion that activities under these headings should be very materially restricted. Particularly should this be true with respect to Item 5, for the reason that we are already invading the field of consulting and private actuaries and we are likely to involve ourselves with these people, if such practices continue. The opinion with respect to Items 6 and 9 were not quite so definite and will have to be clarified later.

Item 11—Was discussed generally. It is my understanding that it is to receive further consideration later on.

Items 14 and 15—It appears to be the rather general practice to write these classes of cases without life reinsurance.

Item 16—Nothing was determined with respect to this point.

I realize that this analysis of the topics under discussion may appear to you to be rather rambling. However, that was the method we used, and it is, I believe, logical.

In order further to amplify the report I am sending to you a copy of the minutes of the meeting, which was, of course, informal. The minutes were kept by Mr. McAndless in a very informal way.

After the discussion to which I have referred took place it was determined that a Reinsurance Conference should be formed, consisting of the three companies represented at the meeting and your own, if you care to go further with the matter. As the minutes show, a committee, consisting of Messrs. Coburn, McAndless, and Buttolph, and Pattison, on rates and underwriting was appointed for the purpose of studying the ways and means whereby rates and underwriting practices could be standardized. The meeting of this committee will be held at Mr. Arthur Hall's house in Leland, Michigan, on July 26th. It was the earnest hope of everyone that Mr. Pattison, representing your company, could be present. If he can, won't you please notify the Chairman, Mr. Arthur Coburn, of the North American Reassurance Company?

A further thought in connection with this committee was that the underwriters of the various companies should keep a careful record of cases coming up between meetings of the committee which appeared to them to require discussion for any reason. These cases should then be brought to the committee meeting for the purpose of considering them, with the view of reaching more standardized opinions regarding the questions involved. It was also decided, I believe, that the next meeting of this conference should be held in Cincinnati perhaps on the first day

of the meeting of the American Life Convention, at which time steps would be taken looking toward a more definite organization of the group.

I am enclosing a letter from Mr. Coburn to Mr. Pattison, which Mr. Coburn sent to me for delivering to Mr. Pattison after checking it over with my records and understanding regarding the meeting. Will you be good enough to hand it to Mr. Pattison with this explanation and this further comment? Mr. Coburn sent a copy of the letter which he wrote to Mr. Pattison to each member of the committee. In Mr. Buttolph's reply he suggested that the question of coinsurance should be gone into in much more detail than Mr. Coburn's letter might indicate to be the intention. Mr. Coburn refers only to coinsurance of disability benefits, while we feel that the committee should take up the whole coinsurance question and consider not alone commission rates, but commissions in connection with premium rates, surrender charges, and the possible guarantee of dividends or a fixed allowance in lieu thereof. Of course, you will give this point full consideration.

If I have not made anything clear, please let me know and I will do my best to cover your point. I trust that what we have done will meet with your approval, that it will be the pleasure of the Peoria Life to send Mr. Pattison to the committee meeting, and that we shall all gather around the table in Cincinnati this fall.

I think I am entirely correct in saying that the spirit of the meeting was gratifying indeed, and that there was a very genuine desire on the part of the people present to get together for the betterment of the reinsurance business.

Yours very sincerely,

EXHIBIT No. 824

[From files of North American Reassurance Co.]

RATES AND UNDERWRITING

The Committee on Rates and Underwriting met on July 26th and 27th [1929] at Mr. Hall's summer home in Leland, Michigan. Messrs. Buttolph, McAndless, Pattison, and Coburn were present.

The efforts of the Committee were directed to encourage constructive rather than destructive competition between the respective companies and, with that end in view, the Committee arrived at certain rates and rules which in their opinion can be recommended to promote the best interests of the business.

Schedules of new nonparticipating Annual Renewable Term Rates for—

1. Automatic Standard Business.
2. Facultative Standard Business.
3. Substandard Business.

are enclosed. These schedules will, on the whole, represent a slight increase over the present established rate schedules.

The substandard rates will be the same for automatic and facultative contracts.

All of these are minimum rate schedules on which no commissions are to be allowed. The new rates are to be used in solicitation on and after August 15, 1929. Where propositions have been presented to companies on the basis of old-rate schedules, the contracts must be signed not later than September 15, 1929, or the new-rate schedules apply.

It was understood that the automatic rates should be used only where all or a definite part of the first excess was contracted for. The facultative rate schedule applies on second or subsequent excess contracts.

DOUBLE INDEMNITY

Where the original direct writing company charges \$1.25 per thousand for Double Indemnity the minimum reinsurance rate is 60¢ first year and \$1.20 renewal years per thousand.

Where the original direct writing company charges \$1.50 or more per thousand the minimum reinsurance rate for standard Double Indemnity business shall be 50¢ first year and \$1.35 renewal years per thousand dollars of Double Indemnity insurance.

DISABILITY BENEFITS

The question of reinsuring Disability Benefits was fully discussed. It was the unanimous opinion of the Committee that in quoting rates for reinsurance of Disability Benefits unfair competitive practices had not been indulged in.

One Company has quoted definite reinsurance rates for the various Disability clauses they have reinsured and the other three companies have reinsured this benefit on a coinsurance basis, usually allowing commissions only sufficient to cover the commissions allowed by the original company. It was difficult to arrive at a uniform practice in reinsuring this benefit and it was agreed that question might be reopened at a later meeting if occasion demanded.

MORTALITY REFUND CONTRACTS

The majority opinion of the Committee was against the use of mortality refund contracts but it was agreed that a mortality refund contract, allowing 33 $\frac{1}{4}$ % of the excess of the expected claims according to the American Men Ultimate Table (with 50% of the expected claims for the first policy year) over the actual claims incurred, might be used provided that not less than the non-participating conference automatic schedules for standard and substandard premium rates increased by 5% should be employed in making such contract.

COINSURANCE OF LIFE BUSINESS

The question of permitting a company to recapture or take back life business that had been coinsured was discussed. It was agreed that the practice of permitting companies to recapture coinsured life business could be used to break down the conference yearly renewable term premium rates and this situation was not satisfactory to the Committee. Accordingly, it was agreed that the recapture of coinsured life business should not be permitted until the tenth policy anniversary of the life business coinsured.

UNDERWRITING

It was the consensus of opinion that constructive work could be done in harmonizing underwriting practices.

UNFAIR BARGAINING BY DIRECT COMPANIES

It was the feeling of the Committee that certain direct writing companies have told one reinsurer, for the purpose of securing a more favorable contract, that another reinsurer had already offered more favorable rates than the usual practice of such other reinsurer. It was the unanimous opinion of the Committee that in future such statements to one of us should be promptly reported.

EXISTING CONTRACTS

The understanding is that the rates in existing contracts are not affected. However, if business is being done without a contract the company shall have until the 15th of September to sign a contract and if no contract has then been signed the new rates shall apply.

EXHIBIT No. 825

[From files of North American Reassurance Co.]

Notation: 21 August 1936.

REINSURANCE CONFERENCE RULES

The Reinsurance Conference was organized as a result of the feeling on the part of the officers of several companies active in soliciting reinsurance that constructive rather than destructive competition between the respective companies should be encouraged. With that end in view the following rules were established:

RULES WITH REGARD TO RATES

(a) *Life Reinsurance*.—Schedules of rates are provided for—

1. Automatic standard business. Schedule A.
2. Facultative standard business. Schedule B.
3. Substandard business. Schedule C.

These rates shall be nonparticipating.

The rates given in Schedule A for standard business shall apply only where all or a definite part of the first excess (or all the second excess where the first excess is less than two hundred percent (200%) of the original company's retention) is

contracted for; otherwise, the rates given in Schedule B shall apply. It is understood, however, that the Metropolitan may continue to offer the rates which they made effective on January 1, 1930, and that these rates shall be nonparticipating. The substandard rates shall be the same for all contracts.

Disability.—Disability reinsurance shall be handled upon a coinsurance basis in accordance with the rates and forms of the original company. The commissions to be allowed in connection with such coinsurance shall not exceed 75% in the first year and 10% in renewal years or, alternatively, 85% in the first year and 7½% in renewal years.

Double Indemnity.—Where the original direct writing company charges a basic rate less than \$1.50 per thousand, the commissions allowed in reinsuring such Double Indemnity shall not exceed 60% in the first year and 7½% in renewal years; thus, if a rate of \$1.25 is charged by the original company, the reinsuring company shall charge a rate of at least \$0.50 per thousand in the first year and \$1.15 per thousand in renewal years.

Where the original direct writing company charges \$1.50 or more per thousand, the minimum reinsurance rate per thousand to be charged shall be \$0.50 in the first year and \$1.35 in renewal years.

It is understood, however, that the Metropolitan may continue its practice of charging \$0.625 in the first year and \$1.25 in renewal years.

It is satisfactory to allow the same rate of commission on Double Indemnity as is allowed upon the Life portion of the premium, if all of the reinsurance is handled upon a coinsurance basis.

Coinurance.—The commissions to be allowed in reinsuring policies designated as "Non-Participating Preferred Risk Policies" shall not exceed 75% of the first year premium and 7½% of the renewal premium for fourteen renewal years or a scale comparable to this; furthermore, these commissions shall be granted only to companies under contract to place with the reinsurer a definite part of their first excess arising from all business issued.

Reductions shall not be made in coinsured Life business on account of a retroactive increase in retention by the original company until the tenth policy anniversary of such coinsured business.

"Modified Coinurance."—"Modified coinsurance" contracts shall grant no expense allowance except for commissions and taxes, on reinsurance accepted at standard rates, and this form of contract shall not be used to break down the Conference Yearly Renewable Term rates.

Mortality Refund Contracts.—The opinion of the committee which considered the question of issuing reinsurance contracts providing for a refund based on mortality savings was against the use of such contracts.

Increase in Retention Under Y. R. T. Reinsurance.—Reductions in Yearly Renewable Term reinsurance, because of a retroactive increase in retention, shall be permitted only on standard lives in connection with which the Original Company retained its maximum limit, effective at the time reinsurance was obtained, for the and form of contract under consideration. When the Original Company's standard retention is \$5,000 or more at date of issue, recapture shall be permitted only after the reinsurance has been in force five (5) years or more; all retroactive increases in retention shall provide for the same percentage increase at all ages, adjusted to the nearest \$500.

RULES GOVERNING COMPETITIVE PRACTICES

If any insurance company has in force a reinsurance contract, covering all or a substantial portion of its reinsurance, with a Conference Company which has Life, Disability, or Double Indemnity reinsurance rates that are less than the existing conference rates, any member of the Reinsurance Conference may offer equivalent rates under a contract covering at least one-half of the first excess standard reinsurance of such company.

Conference companies shall not extend existing low rates (lower than Schedule A) under a facultative contract providing for reinsurance of no definite portion of a company's excess to any contract for a definite portion of a company's excess nor shall they make arrangements for automatic acceptance at such low rates.

No conference company shall increase the percentage of participation in existing mortality refund contracts without the consent of the other members of the conference.

Effect of Merger on Reinsurance Contracts.—If Company A merges with Company B, and the charter of B is continued, a Conference Company having a contract with Company A at less than Conference rates is not permitted to continue such contract, as an active contract, with Company B.

Automatic Cessions.—Automatic Life reinsurance shall not apply if the sum of the amount of insurance already in force on the Life and the amount applied for, currently, is in excess of the following amounts:

Age	Amount ¹	Age	Amount ¹
15-----	\$100, 000	20-----	\$750, 000
16-----	200, 000	21-50-----	1, 000, 000
17-----	300, 000	51-55-----	750, 000
18-----	400, 000	56-60-----	500, 000
19-----	500, 000	61-65-----	250, 000

¹ Notation: "\$500,000 all ages."

If these amounts total more than \$2,000,000, it is recommended that reinsurance be refused.

Automatic Double Indemnity reinsurance shall not apply if the sum of the amount of Double Indemnity and Principal Sum indemnity already in force on the Life and the amount applied for, currently, is in excess of \$25,000.²

Double Indemnity Claims.—It is recommended that the Original Company should not be permitted to settle Double Indemnity claims without the approval of the reinsurer if the amount of the Double Indemnity benefit retained is less than the amount reinsured.

Replacements.—When an old policy is replaced by a new policy, it is recommended that the new policy be handled as new business only if the original company secures complete new evidence of insurability; complete new evidence of insurability is advisable in all such cases and commissions should be kept at a minimum.

SERVICE TO REINSURANCE CLIENTS

It is the opinion of the Reinsurance Conference that services rendered to reinsurance clients should not exceed those ordinarily offered to neighboring companies. The following rules were formulated:

(a) No employee of a reinsuring company shall be loaned to a client or to a prospective client for a period of more than five days unless the client pays the entire cost (salary, traveling expenses, and maintenance) of the employee so loaned, including the cost of the first five days.

(b) Actuarial services shall not be rendered by the Home Office of a reinsuring company to a client, if such actuarial service puts the reinsuring company to any material expense such as making up a rate book, preparing annual statement, making of Gain and Loss statement, etc.

The foregoing rules shall not prohibit the reinsuring company from permitting an employee of a client company from visiting the Home Office of the reinsurance company and receiving instruction in underwriting methods, keeping insurance and reinsurance records, and actuarial work, nor shall the foregoing rules prohibit an officer or employee of a reinsuring company when paying a visit to the Home Office of a client company from discussing matters of general insurance and reinsurance interest, but such visit is not to be unduly prolonged simply to do work for the client company, which the client company would otherwise have to pay for.

EXPENSE OF REINSURANCE CONFERENCE

After each meeting of the Reinsurance Conference the Chairman shall determine the total expenses incurred and shall then notify the Secretary who will bill each company for its proportionate part of such expenses.

NEW MEMBERS IN REINSURANCE CONFERENCE

If any company requests the privilege of becoming a member of the Conference, the member company approached shall send notice of the application to the Secretary of the Conference, who will take the matter up with the other Conference companies. If no objection is raised by a member company, the company requesting membership shall be invited to send representatives to the next meeting. If any objection is raised, the question shall be taken up at the next meeting of the Conference.

² Notation: "Sometimes we say \$25,000; sometimes \$50,000."

ANNUAL MEETINGS OF CONFERENCE

Meetings of the Reinsurance Conference shall be held annually at the time of the meeting of the American Life Convention, when that meeting is held in Chicago and, otherwise, at the fall meeting of the American Institute of Actuaries in Chicago.

* * *

[Notation: Brennan.]

MINUTES OF THE REINSURANCE CONFERENCE HELD AT THE EDGEWATER BEACH HOTEL, IN CHICAGO, ON WEDNESDAY, JUNE 1, 1938

The following companies were represented at the meeting:

American United—Mr. Morris.
 Business Men's Assurance—Mr. McVity.
 Connecticut General—Mr. Laird.
 Lincoln National—Messrs. McAndless and Kalmbach.
 Metropolitan—Mr. Craig.
 North American—Messrs. Cathles, Oden, and Smith.
 Ohio National—Mr. Sturtevant.
 Travelers—Mr. Bagley.

The following rules were adopted unanimously:

1. No reinsurance shall be accepted on a risk for an amount which increases the total amount in force on the life to more than \$750,000; provided, however, that if the original company has a retention of less than \$25,000 and retains its maximum limit currently, then it will be satisfactory to make it possible for such a company to issue as much as \$25,000 even though such acceptance increases the total in force on the life to more than \$750,000.

2. The definition of a "jumbo" risk shall be modified so that no reinsurance will be accepted automatically on a risk in connection with which the sum of the amount already in force and the amount applied for currently is in excess of \$500,000. This change is to be made as soon as possible in outstanding contracts with companies from which reinsurance on such risks can be expected.

3. Hereafter, the automatic Life coverage on standard and substandard risks shall be limited to 400% of the original company's maximum retention, or \$100,000, whichever amount is the smaller.

4. The Committee which was appointed at the last meeting of the Conference, to study ways and means of improving the profits under reinsurance business, is to be continued; this Committee is composed of Messrs. Cathles, Laird, and McAndless.

A question was raised as to the proper method of distributing reinsurance when a company has several reinsurance connections. It was felt that each such situation should be settled as it arises and that no attempt should be made to decide upon a general rule.

* * *

[File Reins. Conference]

[Notation: Circulated.]

JUNE 6, 1938.

MEMORANDUM RE REINSURANCE CONFERENCE

At the meeting of the Conference held on June 1, 1938, in Chicago there were present Messrs. Morris, Laird, Sturtevant, Bagley, Craig, McAndless, Kalmbach, McVitty, Cathles, Oden, and Smith.

The following changes in rules were agreed to:

1. That the reinsurers will not give an acceptance on a life where the amount in force plus the amount to be accepted exceeds \$750,000 except to enable a small company to issue not more than \$25,000, and then only when such small company retains its full limit.

2. The automatic limit on Jumbo cases was set at \$500,000 in force and applied for.

3. In all new treaties the limit of automatic coverage shall not exceed four times or \$100,000, whichever is the smaller.

There was a general discussion as to permitting the recapture of other than standard business, and it was the unanimous opinion of the meeting that requests to recapture such business should be denied in accordance with the rules of the Conference.

(Signed) W. H. SMITH.

WHS:N.

EXHIBIT No. 826

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

1937 Lapse Ratios Compared with the Relative Sales Rates during 1935 and 1936

[Data covering the forty United States life insurance companies for which the Life Insurance Sales Research Bureau reported lapse ratios for 1937. Based on ordinary business only]

	New Business		Average New Business for 1935 & 1936 (Mil- lions)	Business in Force 1/1/35 (Mil- lions)	Relative Sales Rates 3÷4	Lapse Ratio (L. I. S. - R. B.)
	1935 (Mil- lions)	1936 (Mil- lions)				
	(1)	(2)	(3)	(4)	(5)	(6)
16 "A" Companies:						
Aetna.....	\$212	\$216	\$214	\$1,883	11.4%	13%
Connecticut General.....	80	87	84	747	11.2	18
Connecticut Mutual.....	100	91	96	893	10.8	15
Guardian.....	44	49	47	457	10.3	18
Lincoln National.....	126	126	126	821	15.3	25
Massachusetts Mutual.....	136	145	141	1,889	7.5	15
Mutual Benefit.....	129	132	131	2,057	6.4	12
Mutual of New York.....	269	253	261	3,744	7.0	9
National of Vermont.....	38	46	42	514	8.2	18
New England Mutual.....	146	147	147	1,282	11.5	10
Northwestern Mutual.....	268	279	274	3,705	7.4	10
Pacific Mutual.....	58	15	37	637	5.8	33
Penn Mutual.....	169	179	174	1,847	9.4	17
Phoenix Mutual.....	47	54	51	584	8.7	12
Provident Mutual.....	83	72	78	935	8.3	15
State Mutual.....	36	41	39	576	6.8	13
8 "B" Companies:						
Fidelity Mutual.....	28	28	28	362	7.7	19
Great Southern.....	43	45	44	216	20.4	38
Home of New York.....	35	36	36	352	10.2	13
Jefferson Standard.....	53	54	54	315	17.1	30
Mutual Trust.....	18	18	18	154	11.7	26
National Life & Accident.....	64	68	66	133	49.6	45
Northwestern National.....	56	54	55	281	19.6	26
Occidental (Calif.).....	67	118	93	156	59.6	34
16 "C and D" Companies:						
Atlantic.....	14.24	13.43	13.84	132	10.5	35
Bankers of Nebraska.....	14.86	13.44	14.15	123	11.5	40
Farmers & Bankers.....	11.17	12.98	12.08	50	24.2	54
Lamar.....	11.64	11.20	11.42	61	18.7	35
Midland Mutual.....	11.23	11.52	11.38	102	11.2	21
Midwest.....	3.63	3.02	3.33	20	16.7	52
Monarch (Mass.).....	2.61	3.24	2.93	17	17.2	31
National Guardian.....	4.70	5.57	5.14	41	12.5	35
Oregon Mutual.....	6.30	7.67	6.99	52	13.4	35
Philadelphia.....	4.05	4.99	4.52	54	8.4	29
Pilot.....	11.97	12.43	12.20	74	16.5	39
Southland.....	16.72	15.65	16.19	115	14.1	39
Standard of Pa.....	2.22	1.46	1.84	20	9.2	34
United Benefit.....	40.04	52.36	46.20	60	77.0	58
Volunteer State.....	10.19	11.19	10.69	103	10.4	38
West Coast.....	17.24	17.19	17.22	104	16.6	45

Sources: (1), (2) & (4) Spectator Insurance Year Books. (5) Life Insurance Sales Research Bureau.

EXHIBIT No. 827

[Prepared by the Securities and Exchange Commission Insurance Study Staff]

The Forty U. S. Life Insurance Companies for Which the Life Insurance Sales Research Bureau Computed 1937 Lapse Ratios

[Companies cross-classified according to their respective relative sales rates during 1935 and 1936 and their lapse ratios in 1937]

Lapse Ratios (L. I. S. R. B.)	Companies Classified According to Relative Sales Rates					Total Number of Companies
	5 to 9.9%	10 to 14.9%	15 to 19.9%	20 to 24.9%	25% & over	
55 to 59.9%-----					1	1
50 to 54.9%-----			1	1		2
45 to 49.9%-----			1		1	2
40 to 44.9%-----		1				1
35 to 39.9%-----		4		1		7
30 to 34.9%-----	2		2		1	5
25 to 29.9%-----	1	2	2			5
20 to 24.9%-----		1				1
15 to 19.9%-----	5	3				8
10 to 14.9%-----	4	3				7
5 to 9.9%-----	1					1
0 to 4.9%-----						
Total Number of Companies-----	13	14	8	2	3	40
Averages (Median)-----	15%	23%	33%	46%	45%	

Based on data from Exhibit No. 826.

SUPPLEMENTAL DATA

The following data was entered in the record on July 13, 1939, and is printed herewith in connection with the testimony of the three Hartford insurance companies, *supra*, p. 4228.

EXHIBIT No. 922

Nonparticipating Life Insurance Rates of Aetna Life, Connecticut General, and Travelers, 1909-1929

[Ordinary Life—Age 35]

Effective Date of Change ¹ by any Company	Aetna Life	Connecticut General	Travelers
January 1, 1909-----	\$21.52	\$21.66	\$22.50
March 15, 1909-----	21.52	21.66	22.50
March 1, 1911-----	21.52	21.66	21.90
January 1, 1913-----	21.52	21.66	21.90
March 1, 1913-----	21.52	21.66	21.70
April 7, 1913-----	21.52	21.66	21.70
May 17, 1915-----	21.52	21.66	20.91
July 1, 1917-----	20.59	21.66	20.91
October 1, 1917-----	20.59	20.61	20.91
February 1, 1918-----	20.59	20.61	20.11
October 1, 1922-----	19.91	20.61	20.11
January 1, 1925-----	19.91	19.91	20.11
September 15, 1925-----	19.91	19.91	19.91
January 1, 1926-----	19.71	19.91	19.91
February 1, 1927-----	19.71	19.91	19.91
April 1, 1928-----	19.71	19.71	19.91
January 15, 1929-----	19.71	19.71	19.71

¹ On some of these dates there were no changes in many rates. There were no further rate changes prior to the adoption of uniform rates, April 1, 1933.

Source: Official published Manuals of the Companies.
Prepared by Aetna Life, Connecticut General, and Travelers.

The Aetna Life rates January 1, 1909–February 1, 1918, the Connecticut General rates May 17, 1915–October 1, 1922, and the Travelers rates January 1, 1909–October 1, 1917, were for policies with certain disability protection, it being the practice with these companies during these periods to include this disability protection in all policies in the absence of underwriting reasons preventing the inclusion.

Percentage Deviations of Nonparticipating Life Insurance Rates of Conn. General and Travelers from Aetna Life Rates Before the Adoption of Uniform Rates Effective April 1, 1933

Year and Age (May 15)	Deviations from Aetna Life Rate					
	Ordinary Life		20-Payment Life		20-Year Endowment	
	Conn. Gen. %	Travelers %	Conn. Gen. %	Travelers %	Conn. Gen. %	Travelers %
Age 25: 1929-32	-0.20	-0.20	-0.18	+0.05	-0.10	+0.88
Age 35: 1929-32	0.00	0.00	-0.04	-0.26	+0.24	+0.73
Age 45: 1929-32	0.00	0.00	-0.57	-0.57	-0.25	-0.25
Age 55: 1929-32	+1.19	+1.19	-0.52	+0.46	+0.20	+1.16

Maximum Deviation from Aetna Life rates for these typical plans and at these typical ages for the several years before the adoption of uniform rates was 1.19%.

Source, original data: Official Published Manuals of the Companies.

Prepared by Aetna Life, Conn. General, and Travelers.

Non-Participating Life Insurance Rates of Aetna Life Insurance Co., Connecticut General Life Insurance Co., and Travelers Insurance Co., showing the rates (annual premium, without disability or double indemnity) in force before (italic type) and after the adoption of uniform rates effective April 1, 1933—typical plans at typical ages.

Year & Age (May 15)	Ordinary Life			20-Payment Life			20-Year Endowment		
	Aetna	Conn. Gen.	Trav.	Aetna	Conn. Gen.	Trav.	Aetna	Conn. Gen.	Trav.
	Dollars per thousand			Dollars per thousand			Dollars per thousand		
Age 25:									
1937-39	15.78	15.78	15.78	24.78	24.78	24.78	43.07	43.07	43.07
1935-36	15.26	15.26	15.26	23.48	23.48	23.48	42.08	42.08	42.08
1933-34	14.72	14.72	14.72	22.14	22.14	22.14	40.97	40.97	40.97
1929-32	14.75	14.72	14.72	22.18	22.14	22.19	39.96	39.92	40.51
Age 35:									
1937-39	21.42	21.42	21.42	30.59	30.59	30.59	44.18	44.18	44.18
1935-36	20.82	20.82	20.82	29.29	29.29	29.29	43.20	43.20	43.20
1933-34	20.06	20.06	20.06	27.82	27.82	27.82	42.09	42.09	42.09
1929-32	19.71	19.71	19.71	27.20	27.19	27.13	41.02	41.12	41.52
Age 45:									
1937-39	31.30	31.30	31.30	39.70	39.70	39.70	48.01	48.01	48.01
1935-36	30.65	30.65	30.65	38.51	38.51	38.51	47.06	47.06	47.06
1933-34	29.85	29.85	29.85	37.16	37.16	37.16	45.98	45.98	45.98
1929-32	28.56	28.56	28.56	35.27	35.07	35.07	44.70	44.59	44.59
Age 55:									
1937-39	48.65	48.65	48.65	54.49	54.49	54.49	57.89	57.89	57.89
1935-36	47.97	47.97	47.97	53.48	53.48	53.48	57.01	57.01	57.01
1933-34	47.17	47.17	47.17	52.35	52.35	52.35	56.02	56.02	56.02
1929-32	44.48	45.01	45.01	49.93	49.67	50.16	54.19	54.30	54.82

Source: Official Published Manuals of the Companies.

Prepared by Aetna Life, Connecticut General, and Travelers.

The following data are printed herewith in connection with testimony supra, p. 4227.

The Travelers Insurance Company, 700 Main Street, Hartford, Connecticut.

Incorporated in Connecticut 1863.

Admitted Assets, December 31, 1938—\$975,527,444.

Insurance in Force, December 31, 1938—745,163 policies; Amount in Force—\$4,644,922,861.

Annuities and Supplementary Contracts Involving Life Contingencies Outstanding, December 31, 1938—55,358 number; annual income, \$21,427,018.

Capitalization, December 31, 1938—200,000 shares common stock outstanding, par value \$100.

Number of shareholders of record, December 31, 1938—8,436.

Ætna Life Insurance Company, 151 Farmington Avenue, Hartford, Connecticut.

Incorporated in Connecticut—1853.

Admitted assets, December 31, 1938—\$621,319,457.

Insurance in Force, December 31, 1938—595,534 policies; Amount in force—\$3,984,353,013.

Annuities and supplementary contracts involving life contingencies outstanding, December 31, 1938—94,886 policies; annual income \$17,353,387.

Capitalization, December 31, 1938—1,500,000 shares common stock outstanding, \$10 par.

Number of shareholders of record, December 31, 1938—17,219.

Connecticut General Life Insurance Company, 55 Elm Street, Hartford, Connecticut.

Incorporated in Connecticut—1865.

Admitted assets, December 31, 1938—\$246,598,612.

Insurance in Force, December 31, 1938—201,175 policies; amount in force, \$1,147,142,845.

Annuities and supplementary contracts involving life contingencies outstanding, December 31, 1938—29,293 number; annual income \$8,379,180.

Capitalization, December 31, 1938—300,000 shares common stock outstanding, \$10 par.

Number of shareholders of record, December 31, 1938—2,444,

The following data were prepared by the Insurance Staff of the Securities and Exchange Commission at the request of Senator King. See text, p. 4172.

SUMMARY OF STATUTORY PREREQUISITES FOR LICENSING OF LIFE INSURANCE AGENTS

The following is an outline of the steps which must be taken by applicants for licenses as life insurance agents in order to show that the applicant is qualified as to character, competence and knowledge. Most of the laws also require proof of the appointment of the agent by a company, and enumerate illegal and unethical practices. Frequently there are additional provisions outlining grounds for revocation and suspension of licenses. Some states require proof that the licenses will be used in legitimate insurance business and not in evasion of anti-rebate laws.

It should also be noted that department regulations frequently enlarge upon the bare statutory requirements. Only the latter are included in the following summary.

A. In the Following States All Life Insurance Agents are Required to obtain Licenses:

State and Statute	Prerequisites for Obtaining License
Alabama Code 1928; Supp. 1936....	Examination required for first applicants; discretionary for renewals. Examination to show competency, good moral character, trustworthiness, qualifications that will reasonably protect the public interest, knowledge of insurance fundamentals, insurance laws, insurance business practices, policy provisions and classifications (Sec. 8378: Sections 2 and 3). Certificate from company certifying applicant's experience or training (completed or intended). Certificate from company representative or licensed agent certifying to applicant's good reputation and worthiness (Sec. 8378:2).

State and Statute	Prerequisites for Obtaining License
Arizona Rev. Code 1928.....	No prerequisites stated in statute. License must be obtained for each company to be represented (Sec. 1817).
Arkansas Dig. 1937.....	Commissioner must be satisfied that applicant is "a suitable person" to act as an agent (Sec. 7951).
California Deering, Cal. Codes 1937, "Insurance" (Laws 1935, Ch. 145).	Examination required under oath on forms prepared by Commissioner (Sec. 1705). Certificate from company certifying applicant's experience or training (completed or intended) within 30 days from date of obtaining license, and to applicant's business experience, good reputation and worthiness (Sec. 1704). Commissioner must determine that applicant has a good business reputation, no prior rejections of applications for licenses and that issuance of license will not be in violation of law. Commissioner must also determine applicant's experience or training (Sec. 1706). Application containing a statement of applicant's past record and "general knowledge" of the insurance business (Sec. 19). Commissioner must be satisfied that applicant is a "suitable person" and that he has satisfactory qualifications and fitness (Sec. 8 and 19). Application must contain statement of applicant's past record. Commissioner, upon such inquiry and examination as he deems necessary, must be satisfied that applicant is properly qualified and that the appointment is not against public interest (Sec. 4129). Applicant must establish that he is properly qualified and equipped to carry on the insurance business (Sec. 531).
Colorado Stat. 1935, Ch. 87; Laws 1937, Ch. 177.	Application must contain statement of applicant's past record, experience and knowledge of insurance laws and provisions of policies. Certificate by company representative certifying to investigation of applicant's character and qualifications (Sec. 217-x).
Connecticut Gen. Stat. 1930.....	Application on prescribed form must contain affidavit against illegal practices. Certificate from company representative or licensed agent certifying to applicant's experience or training (either completed or intended), good business reputation and worthiness. Certificate must also state that company is satisfied that applicant has good reputation, experience or training and other qualifications, and is reasonably familiar with the insurance law and policy provisions (Sec. 6210, 6211).
Delaware Rev. Code 1935.....	Application must contain statement of past record and other information necessary to show qualification, character and fitness of applicant. Certificate from company representative certifying that investigation of applicant's character and record proved him to be trustworthy. Department must be satisfied that applicant is trustworthy and a proper person to be licensed (Secs. 40-1001 and 40-1003).
Dist. of Col. Code 1929, Supp. IV..	Examinations required in writing for all new applicants. Examination to cover all types of insurance to be solicited (Sec. 10). Application must contain statement of past record. Statements required from two "vouchers" for business reputation and worthiness (Sec. 6).
Florida Comp. Gen. Laws 1927.....	Department must find applicant trustworthy (Sec. 12). Examination required if department deems it necessary in order to determine trustworthiness and competency. Application must contain statement of past record and experience or instruction.
Idaho Code 1932.....	Company representative must vouch for applicant's reputation for business integrity and general fitness (Sec. 39-4603). No prerequisites for obtaining license (Sec. 9119).
Illinois Rev. Stat. 1937, Ch. 73.....	Certificate from company representative certifying to applicant's experience or training (completed or intended), and his good reputation and worthiness. Commissioner must find applicant to be of good business reputation, and must determine applicant's experience, training, knowledge of insurance laws and policy provisions, and good business reputation (Secs. 40-240 and 241).
Indiana Burns Ann. Stat. 1933 Supp.	Application must contain statement of past record, experience or training (completed or intended), and familiarity with insurance laws and policy provisions. Certificate from company representative certifying that investigation proved applicant to be trustworthy and qualified. Commissioner must find applicant to be a "properly qualified" person (Sec. 659-2).
Iowa Code 1935.....	No prerequisites for obtaining "a certificate of authority" from the Secretary of State (Sec. 4264).
Kansas Gen. Stat. 1935.....	Application must contain statement of applicant's past record. Commissioner must be satisfied that appointee is a suitable person (Sec. 125).
Kentucky Stat. 1936.....	Commissioner must find that applicant has not been guilty of misrepresentation, unfair business practices, misappropriation or violation of law, and has never had a license revoked (Sec. 61). Application must contain statement of past record. Commissioner must be satisfied that applicant is suitable and competent (Sec. 163).
Louisiana Gen. Stat. 1939.....	
Maine Rev. Stat. 1930, Ch. 60; Laws '31, Ch. 157; Laws '33, Ch. 195.	
Maryland Ann. Code Supp. 1935, Art. 48A.	
Massachusetts Gen. Laws 1932, Ch. 175.	

State and Statute	Prerequisites for Obtaining License
Michigan Comp. Laws 1929; Supp. 1935, 1937.	Examination may be required at discretion of Commissioner. Application must contain sworn statement of past record, acknowledgment of illegality of enumerated practices and undertaking not to indulge in them. Commissioner must find applicant qualified to solicit the desired line of insurance, reasonably familiar with insurance laws and policy provisions, and a fit and proper person (Secs. 12344, 12346 and 12346-1).
Minnesota Stat. 1927.	Applicant must not be incompetent, unqualified, untrustworthy, of bad moral character, or have been guilty of deceit, fraud, dishonesty, misappropriation or practices in violation of the insurance law (Sec. 3352). Company may not apply on behalf of a person known to be unfit or disqualified to be licensed as an insurance agent under the law (Sec. 3359).
Mississippi Code 1930	Application must contain statement of past record. Certificate from company representative certifying to investigation of applicant's character and record which proved him to be trustworthy and qualified. Commissioner must be satisfied that applicant is fit and competent (Sec. 5208).
Missouri Rev. Stat. 1929	No prerequisites. Company must have certificate of its compliance with law before commencing business, and every agent shall have a certified copy of such certificate, showing the agent's name. Agent's copy may be refused or suspended for cause (Sec. 5892).
Montana Rev. Code 1935	Application must include statement of applicant's familiarity with insurance laws and policy provisions, experience or training (completed or intended). Certificate from company representative certifying that investigation proved applicant to be trustworthy and qualified (Sec. 6118). Application must contain statement of past record. Applicant must not have been guilty of violations of insurance law, misappropriation or intent to evade anti-rebate laws (Sec. 44-328).
Nebraska Comp. Stat. 1929	Application must contain sworn statement of past record and answer to interrogatories included in application form. Certificate from company representative certifying to applicant's experience or training (completed or intended), good reputation, and worthiness. Commissioner must be satisfied with applicant's integrity and qualification (Laws 1931, Ch. 165, Secs. 2 and 3).
Nevada Comp. Stat. 1929; Laws 1931, Ch. 165.	Examination required for inexperienced applicants. Applicant must file statement of past record. Commissioner must be satisfied that applicant is a suitable person, qualified by experience or instruction to act as an agent, and is reasonably familiar with the insurance laws and policy terms (Secs. 14 and 15).
New Hampshire Pub. Laws 1926; Ch. 273; Laws 1933, Ch. 124.	Application must contain statement of past record, experience or training (completed or intended), good business reputation and worthiness. Certificate from company representative certifying to statements in application (Sec. 71-134).
New Mexico Stat. 1929	Commissioner must find that applicant is of good moral character and a proper person to serve as agent, has sufficient knowledge of the business, and has not violated any insurance laws, and that the license will serve the public interest (Sec. 6299). Interrogatories in application to be answered under oath. Commissioner must be satisfied that the applicant is worthy of a license (Sec. 4854a).
North Carolina Code 1939	Application must contain statement of past record. Certificate from company representative certifying that investigation of applicant's character and record proved him trustworthy and qualified. Applicant must be of good reputation or character, trustworthy or suitable to be licensed (Sec. 654-4 Amended).
North Dakota Comp. Laws Supp. 1925.	Notification from company to Commissioner upon appointment of a suitable person to act as agent. Commissioner to issue license "if the facts warrant it" (Sec. 10451). Application must be filed containing prescribed statement. Commissioner must be satisfied that applicant is qualified for the proposed business (Secs. 46-112-5, 46-505).
Ohio Gen. Code	Agent with five years' experience may have license with a different company without submitting to an examination. Examination required by department ruling (Sept. 1, 1927) for new applicants. Application must contain statement of past record. Certificate from company representative certifying to the statements in the application, and to the applicant's good business reputation, underwriting experience (other than soliciting), and worthiness. Commissioner must be satisfied that applicant is worthy and reasonably familiar with the insurance law (Sec. 233).
Oklahoma Stat. 1931	Application must contain statement of past record, countersigned by company. Certificate from company representative certifying to applicant's experience or training (completed or intended), and to his good reputation and worthiness. Commissioner must be satisfied that applicant possesses qualifications required by law, and is reasonably familiar with the insurance law and policy provisions (Sec. 18).
Oregon Code 1930	
Pennsylvania Stat. Ann. Supp. Title 40.	
Rhode Island Gen. Laws 1923, Ch. 256; Laws '26, Ch. 821; Laws '36, Ch. 2294.	

State and Statute	Prerequisites for Obtaining License
South Carolina Code 1932.....	Commissioner must determine that applicant is a fit and proper person (Sec. 7951).
South Dakota Code 1939.....	Commissioner must find proposed agent to be of good reputation and character, and that the facts warrant issuance of a certificate of authority (Sec. 31-1304).
Tennessee Code 1938.....	Application must contain statement of past record, showing familiarity with insurance laws and policy provisions, applicant's experience or training (completed or intended), prior refusals of license and cancellation of agency contracts. Certificate from company representative certifying truth of statements in application. Commissioner must be satisfied that applicant is trustworthy and properly qualified, and may require specific additional information (Sec. 6236.10).
Texas Stat. 1936.....	Application must be in such form and contain such information as may be required. Board must be satisfied that applicant is of good character and reputation (Sec. 5068-b).
Utah Rev. Stat. 1933.....	Application must contain statement as prescribed. Commissioner must be satisfied that the applicant is of good reputation and character, and that the facts warrant the issuance of a certificate of authority (Sec. 43-6-1).
Vermont Pub. Laws 1933; Laws 1935, Act 179.	Application must contain statement as prescribed, including past record. Statement of trustworthiness and competence signed by three citizens must be filed (Sec. 7047, 7048).
Virginia Code 1936; Supp. 1938....	Certificate from company representative certifying that investigation of applicant's character and record proved him trustworthy. Commissioner must be satisfied that applicant is trustworthy and has sufficient knowledge of the business of insurance to conduct it intelligently (Sec. 4235).
Washington Rev. Stat. 1931; Laws '37, Ch. 66.	Examination in writing required of new applicants with questions based upon a manual prepared by the Commissioner. In lieu of examination by Commissioner, applicant may submit company examination passed on a study course satisfactory to the Commissioner.
West Virginia Code 1937.....	Application must contain statement as prescribed (Sec. 7089). Applicant must be found trustworthy and competent (Sec. 3398).
Wisconsin Stat. 1937.....	Application must contain statement of past record. Commissioner must be satisfied that applicant is trustworthy and reliable (Sec. 206.41).
Wyoming Stat. 1931.....	Company to have applicant file statement as prescribed. Commissioner must be satisfied that applicant is worthy and competent (Sec. 57-203).

B. Some Life Insurance Agents are Required to obtain Licenses in the Following States:

State and Statute	Prerequisites for Obtaining License
Georgia Code 1933.....	Agent need not procure license if his name is certified to the Commissioner by a reputable insurance company as its accredited agent (Sec. 56-503). Agents who must obtain license shall apply to Commissioner, who shall be advised as to the moral character and integrity of the applicant (Sec. 56-504).
New Jersey Rev. Stat. 1937.....	Agents of domestic companies need not obtain licenses. Agents of foreign companies must file certificate of representative of company certifying appointment and stating that agent is a suitable person. Commissioner must be satisfied that facts warrant granting the certificate (Sec. 17-32-6).
New York Cons. Laws, Ch. 28, as Amended.	Law in force before January 1, 1940: Industrial agents not required to obtain license. Company must approve and countersign application by ordinary agents. Superintendent may refuse license in his discretion (Sec. 91).
Laws 1939, Ch. 882.....	Law in effect after January 1, 1940: Industrial agents required to obtain license only if they act as agents for periods of more than six months. Examination required for ordinary agents, but not industrial agents. Examination to determine the trustworthiness and competency of the applicant. Application to be in such form and containing such information as the Superintendent may prescribe. License or renewal of license may be denied if the applicant is not trustworthy or competent or has given cause for revocation or suspension of license, or has failed to comply with any prerequisite for issuance or renewal (Secs. 113, 114). No examination required for renewal of license of agent licensed before January 1, 1940.

INDEX

	Page
Acacia Mutual Life Insurance Co.....	4339
Intercompany agreements:	
Medical Information Bureau.....	4897
Replacement agreement.....	4906
Lapse rate.....	4742, 4743
Actuarial Society.....	4158,
4181, 4196, 4509, 4524, 4547, 4565, 4600, 4631, 4642, 4850	
Discussions of commissions on life annuities.....	4837
Investigation of annuity mortality.....	4552
Optional settlement discussions.....	4587
Adams, R. S.....	4761
Aetna Life Insurance Co.....	4224, 4225, 4230, 4236, 4239, 4243,
4244, 4251, 4260, 4437, 4556, 4566, 4729, 4744, 4746, 4841, 4929	
Intercompany agreements:	
Annuities.....	4515,
4520, 4526, 4529, 4531-4533, 4537, 4538, 4551, 4828-4830, 4832,	
4833, 4837-4842, 4844-4846, 4850-4852, 4855-4857, 4865, 4886.	
Group Association.....	4163, 4164, 4174, 4181, 4182,
4198, 4205, 4207, 4688, 4689, 4703, 4705, 4706, 4710, 4711, 4716	
"Jumbo risks".....	4903
Medical Information Bureau.....	4897
Nonparticipating rates.....	4229,
4232, 4233, 4240-4242, 4247, 4256, 4259, 4261, 4262, 4264, 4701,	
4718-4724, 4729-4731, 4843, 4927, 4928.	
Replacement agreement.....	4905, 4907, 4911, 4913
Settlement options and surrender values.....	4576,
4585, 4605, 4612, 4613, 4619, 4622, 4629, 4836, 4840, 4848, 4849,	
4853, 4856, 4869, 4872, 4873-4876, 4879, 4881, 4882, 4884, 4891-	
4893, 4895.	
Lapse rate, 1925-28.....	4741
Lapse rate, 1929-38.....	4742
Lapse ratio.....	4926
Little Entente, membership in.....	4613
Ordinary business, volume.....	4732
Rates.....	4731
Stockholders' dividends.....	4717
Agency directors' and managers' conference.....	4758
Agents, commissions discussed.....	4465, 4485
State regulation of, discussed.....	4362-4364, 4929-4932
Aiken, Alfred L.....	4349, 4757
Alabama code.....	4929
Allen, Mr.....	4399, 4757, 4767, 4768
Alliance Life Insurance Co.....	4899
All States Life Insurance Co.....	4899
American Annuitants select table.....	4515,
4517, 4522, 4530, 4531, 4537, 4538, 4830, 4831, 4836, 4844, 4846,	
4849, 4850, 4882, 4886.	
American Bankers Insurance Co.....	4899
American Bar Association, The.....	4362
American Central Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4903
Reinsurance.....	4669, 4672-4674, 4678, 4918, 4919
Replacement agreement.....	4910
American College of Life Underwriters.....	4662
American experience table.....	4235, 4283, 4284, 4285, 4473, 4733, 4853, 4887

	Page
American Institute of Actuaries.....	4535, 4843, 4925
Report of the committee on cash-surrender value.....	4627, 4629, 4894
American Life Convention.....	4169,
	4231, 4670, 4691, 4718, 4835, 4888, 4889, 4921, 4925
Intercompany agreements:	
Nonparticipating rates.....	4230
American Life Insurance Co., Birmingham, Ala.....	4899
American Life Insurance Co., Detroit, Mich.....	4908
American men table of mortality.....	4272,
	4187, 4234-4236, 4238, 4239, 4251, 4719, 4721, 4727, 4729-4731
American men ultimate table.....	4887, 4888, 4922
American Mutual Life Insurance Co.....	4899
American National Insurance Co.....	4899
American Reserve Life Insurance Co.....	4899
American Union Life Insurance Co:	
Policy containing the seal of the United States.....	4496
American United Life Insurance Co.....	4746
Intercompany agreements:	
Medical Information Bureau.....	4897
Reinsurance.....	4925
Replacement agreement.....	4908
Amicable Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4897
Replacement agreement.....	4656, 4913
Ancient Foresters' Mutual Life Insurance Co.....	4899
Anderson, B. M., counsel, Connecticut General Life Insurance Co....	4278, 4279
Annuities:	
Commissions.....	4518-4521
Expenses.....	4542
Income from personal annuity contracts, 1913-37.....	4506-4508, 4825
Intercompany agreements.....	4505-4567, 4830-4857
Discussions of actuaries.....	4508
1933 rate increase.....	4514
1934 rate increase.....	4528
1936 rate increase.....	4530
1938 rate increase.....	4541
Aetna Life Insurance Co.....	4515,
	4520, 4526, 4529, 4531-4533, 4537, 4538, 4551, 4828-4830, 4832,
	4833, 4837-4842, 4844-4846, 4850-4852, 4855-4857, 4865, 4886
Bankers Life Insurance Co. of Iowa.....	4838-4840, 4855
Berkshire Life Insurance Co.....	4520, 4526,
	4551, 4828, 4829, 4832, 4833, 4851, 4852, 4854, 4855, 4886
Canada Life Assurance Co.....	4520, 4532, 4535, 4538, 4559, 4828, 4829,
	4832, 4837, 4839, 4840-4842, 4846, 4852, 4882
Canadian companies.....	4513, 4526, 4551, 4828, 4829, 4834, 4837, 4855
Connecticut General Life Insurance Co.....	4515,
	4517, 4520, 4526, 4528, 4531, 4532, 4534-4538, 4551, 4557, 4828-
	4834, 4837-4846, 4849, 4851, 4852, 4855, 4856, 4857, 4886.
Connecticut Mutual Life Insurance Co.....	4522,
	4524, 4527, 4531, 4532, 4537, 4538, 4550, 4551, 4828, 4829, 4832,
	4834, 4837-4842, 4844, 4846, 4850-4853, 4854, 4855, 4857, 4886
Equitable Life Assurance Society of the United States.....	4515,
	4516, 4526, 4528, 4530-4532, 4534, 4535, 4537, 4552, 4826, 4828-
	4830, 4832, 4833, 4837-4840, 4842, 4844, 4845, 4846, 4849, 4850,
	4852, 4853, 4857, 4886, 4888, 4889.
Equitable Life Insurance Co. of Iowa.....	4531-4533,
	4537, 4551, 4828, 4829, 4837, 4839, 4842, 4844-4847, 4852, 4855
Fidelity Mutual Life Insurance Co.....	4521,
	4526, 4551, 4828, 4829, 4832, 4834, 4851, 4855, 4882, 4886
Guardian Life Insurance Co.....	4522, 4524, 4526, 4537, 4538, 4551,
	4828, 4829, 4832, 4834, 4844-4847, 4852, 4855, 4886
Home Life Insurance Co.....	4520,
	4527, 4532, 4537, 4538, 4550, 4551, 4828, 4829, 4832, 4834, 4837,
	4839, 4840, 4841, 4843-4847, 4851, 4852, 4854, 4855, 4857, 4886

Annuities—Continued.

Intercompany agreements—Continued.

Page

Imperial Life of Canada.....	4532, 4828, 4829, 4837, 4839, 4852
John Hancock Mutual Life Insurance Co.....	4520,
4522, 4526, 4531-4533, 4535, 4537, 4538, 4551, 4557, 4826, 4828,	
4829, 4832, 4833, 4836, 4837, 4839, 4841, 4842, 4844, 4845-4847,	
4850-4852, 4855, 4857.	
Massachusetts Mutual Life Insurance Co.....	4520,
4526, 4531, 4532, 4535, 4537, 4538, 4550, 4551, 4828, 4829, 4832,	
4833, 4836, 4837, 4839, 4841, 4842, 4844, 4845-4847, 4849-4852,	
4854, 4855, 4857, 4886.	
Metropolitan Life Insurance Co.....	4515,
4520, 4526-4528, 4531-4533, 4535, 4537, 4538, 4541, 4545, 4547,	
4550, 4551, 4556, 4557, 4560, 4561, 4563, 4826, 4828-4830,	
4832-4834, 4836-4842, 4844-4847, 4849, 4850-4852, 4855, 4857.	
Minnesota Mutual Life Insurance Co.....	4526, 4833
Mutual Benefit Life Insurance Co., The.....	4520,
4524, 4526, 4527, 4532, 4535, 4537, 4538, 4550, 4551, 4826, 4828,	
4829, 4832, 4833, 4836, 4837, 4839, 4840, 4841, 4843, 4844, 4845,	
4846, 4851, 4852, 4855, 4857.	
Mutual Life Insurance Co.....	4514-
4516, 4520, 4528, 4532, 4537, 4538, 4551, 4826, 4828-4830, 4832-	
4834, 4836, 4837, 4839-4847, 4849-4852, 4855, 4857, 4886.	
National Life Insurance Co.....	4520,
4527, 4532, 4533, 4537, 4538, 4551, 4828, 4829, 4832, 4834,	
4837, 4839, 4844-4847, 4851, 4855, 4886.	
New England Mutual Life Insurance Co.....	4522,
4524, 4526, 4532, 4533, 4537, 4538, 4550, 4551, 4828, 4829, 4832,	
4834-4837, 4839, 4844-4847, 4851, 4852, 4855, 4857.	
New York Life Insurance Co.....	4505,
4506, 4515-4517, 4520, 4524, 4526, 4529-4535, 4537, 4562, 4826,	
4828-4834, 4836-4846, 4849-4852, 4854, 4857.	
Northwestern Mutual Life Insurance Co.....	4520,
4524, 4526, 4529, 4532-4534, 4551, 4826, 4828, 4829, 4832, 4833,	
4835-4837, 4839, 4851, 4852, 4855, 4857.	
Penn Mutual Life Insurance Co., The.....	4522,
4526, 4531-4535, 4537, 4538, 4551, 4826, 4828, 4829, 4832, 4833,	
4836-4839, 4841-4847, 4851, 4852, 4855.	
Phoenix Mutual Life Insurance Co.....	4522,
4524, 4527, 4532, 4533, 4535, 4537, 4538, 4550, 4551, 4828, 4829,	
4832, 4834-4839, 4841-4844, 4846, 4847, 4850, 4852, 4854, 4855,	
4857.	
Provident Mutual Life Insurance Co.....	4522,
4524, 4527, 4530-4532, 4535, 4537, 4538, 4551, 4828, 4829, 4832,	
4835, 4836, 4837, 4839-4841, 4844, 4846, 4847, 4849-4852, 4855,	
4857.	
Prudential Insurance Company of America, The.....	4515,
4520, 4526, 4527, 4529, 4531-4533, 4535, 4537, 4538, 4551, 4826,	
4828-4830, 4832-4834, 4836-4841, 4842, 4844-4847, 4849, 4851,	
4852, 4855, 4857, 4886.	
State Mutual Life Assurance Co.....	4526, 4532, 4550, 4551, 4828,
4829, 4833, 4837, 4839, 4847, 4851, 4852, 4854, 4855	
Sun Life Assurance Co.....	4520,
4531, 4532, 4537, 4538, 4550, 4828, 4829, 4832, 4836, 4837, 4839,	
4840, 4842-4846, 4850-4852, 4857.	
Travelers Insurance Co., The.....	4515,
4517, 4520, 4526, 4529, 4531, 4533, 4535, 4537, 4538, 4550, 4551,	
4826, 4828-4833, 4836-4846, 4849-4852, 4855-4857.	
Union Central Life Insurance Co., The.....	4526, 4531-4533, 4828, 4829,
4833, 4836, 4837, 4839, 4849, 4850, 4852, 4854, 4857	
United States Life Insurance Co.....	4520, 4526, 4531, 4842, 4843
Interest rates discussed.....	4559
Loading discussed.....	4552-4554
Mortality tables discussed.....	4556-4558
Annuity, Group business.....	4716
Anti-trust laws, discussion of their applicability to life insurance com- panies.....	4165-4171, 4232, 4248, 4257

	Page
Arguments for industrial agents re savings bank life insurance.....	4424, 4788
Arizona Revised Code.....	4692, 4930
Arkansas Digest.....	4930
Armstrong committee report.....	4427, 4428
Criticism of methods of life insurance companies in handling legisla- tion.....	4346
Discussion of lobbying practices.....	4428
Investigation.....	4346, 4427, 4570
Arnold, O. J.....	4757
Ashbrook, Joseph.....	4744
Associated Industries.....	4487
Associated Press, The.....	4530
Association of Life Agency Officers.....	4654
Appointment of committee to study replacement.....	4650
Report of committee to study replacement.....	4650, 4904, 4906
Association of Life Insurance Medical Directors.....	4634-4642, 4896, 4901
Association of Life Insurance Presidents, The.....	4354,
4368, 4370, 4381, 4386, 4391, 4397, 4398, 4416, 4418, 4375,	
4423, 4424, 4430, 4431, 4440, 4449, 4473, 4493, 4813.	
Committees.....	4350, 4351
Constitution.....	4349, 4748
Legislative activity:	
California.....	4366, 4370, 4756
Connecticut.....	4435-4437
Florida.....	4376-4393, 4757, 4761, 4762, 4764
Georgia.....	4396-4418, 4767, 4768, 4771-4773, 4775-4777, 4781, 4783
Missouri.....	4422-4426, 4786, 4787
New Hampshire.....	4433-4435, 4810, 4811
New York.....	4420, 4421, 4439, 4440, 4814
Pennsylvania.....	4426-4429, 4785, 4801, 4802
Rhode Island.....	4363-4365, 4429-4433, 4804-4806, 4810
Legislative high points, 1935.....	4361, 4755
Legislative high points, 1937.....	4360, 4754
Litigation fees and expenses, 1934 thru 1938.....	4352, 4750
Lobbying and legislative activities.....	4345
Membership, initiation fees, dues, and contributions.....	4348, 4746
Minutes of first meeting.....	4346, 4744
Model insurance code.....	4362
Objects of.....	4347
Opposition to savings bank life insurance.....	4419-4441
Origin.....	4346
Promotion of legislation.....	4441
Total fees, compensation, and expenses in connection with legislation and appearances before departments of government, by States, 1934 through 1938.....	4356, 4357, 4752
Association of Life Underwriters.....	4664, 4665
Atlanta Association of Life Underwriters.....	4397
Atlanta NYLICS.....	4406, 4772, 4773
Atlantic Life Insurance Co.....	4746
Intercompany agreements:	
Medical Information Bureau.....	4897
Nonparticipating rates.....	4277
Replacement agreement.....	4908, 4913
Lapse rate.....	4742, 4743
Lapse ratio.....	4926
Atlas Life Insurance Co.....	4899
Ayres, F. O.....	4744
Bank holiday.....	4525
Bankers Life Co., Iowa.....	4746, 4757
Intercompany agreements:	
Annuities.....	4838, 4839, 4840, 4855
Medical Information Bureau.....	4897, 4903
Replacement agreement.....	4657, 4905, 4908, 4916
Lapse rate, 1925-28.....	4741
Lapse rate, 1929-38.....	4742

	Page
Bankers Life Insurance Co., Nebraska	4746
Intercompany agreements:	
Medical Information Bureau	4899
Lapse rate, 1925-28	4742
Lapse rate, 1929-38	4743
Lapse ratio	4926
Bankers National Life:	
Intercompany agreements:	
Medical Information Bureau	4899
Replacement agreement	4908
Barnes, George S.	4453
Bass, Clayton C.	4761
Bassford, H. R.	4205, 4850-4867
Testimony of	4541-4567
Beers, H. S., vice-president, Aetna Life, Hartford, Conn.	4177,
	4207, 4259, 4703, 4720, 4721
Testimony of	4243-4258
Beha, James A.	4179, 4552
Behrens, H. A.	4757
Berkshire Life Insurance Co.	4482, 4485, 4744, 4746
Group annuity business in force, 1934-38	4716
Intercompany agreements:	
Annuities	4520, 4526,
	4551, 4828, 4829, 4832, 4833, 4851, 4852, 4854, 4855, 4865, 4886
Medical Information Bureau	4897, 4903
Replacement agreement	4905, 4908
Settlement options and surrender values	4590, 4605, 4853, 4872, 4881
Beryllium Corporation	4530
Best, M. A.	4761
Best's Illustrations	4229, 4277, 4554
Best's Life Reports	4206
Beverly Savings Bank	4487
Blackford, W. H.	4744
Blitch, James Y.	4775
Board of Overseers of Harvard	4453
Bone, Senator	4442, 4445
Boston Life Underwriters Association	4493
Boston Mutual Life Insurance Co.	4746, 4899
Brackett, Karl L.	4757
Bradley, Ed.	4404, 4771
Brainard, Morgan B.	4232, 4245, 4719, 4720, 4721, 4757
Brandeis, Justice Louis D.	4353, 4450, 4451, 4452, 4492, 4495
Brigham, Elbert S.	4349, 4757
Broderick, Dillon F.	4578, 4861
Brockton Savings Bank, The	4455
Brooklyn National Life Insurance Co.	4905
Brosmith, William	4160,
	4166-4170, 4176, 4177, 4205, 4436, 4437, 4689, 4690, 4702, 4703,
	4757, 4813, 4814.
Brown, Mr., insurance commissioner of Massachusetts	4489
Brown, Charles, general agent of the Columbian National	4429, 4804, 4805
Bruce and Bullitt	4354, 4750
Brush Beryllium Co.	4529
Buckner, Thomas A.	4271, 4744, 4745, 4912
Bullitt, William Marshal	4353, 4354
Bullock, A. G.	4661, 4744
Bullock, Chandler	4660, 4661, 4757
Bureau of Internal Revenue	4442
Bureau of Labor Statistics	4272
Burnett, Carl W.	4761
Burnett, Dr.	4453, 4474, 4486
Burns, J. W.	4761
Burroughs, Maj. Robert P.	4434, 4435, 4473, 4810
Business Men's Assurance Co.:	
Intercompany agreements:	
Medical Information Bureau	4899
Reinsurance	4925

	Page
Butler, J. Turner	4761
Butler, Louis F.	4158, 4169, 4174, 4181, 4182, 4691, 4701
Butt, Noah B.	4761
Buttolph, Henry	4669, 4670, 4672, 4678, 4918-4921
Caldwell, Eugene F.	4454, 4816, 4817, 4818, 4819, 4820, 4822, 4823
California Association of Life Insurance Agents	4366
California Code	4930
California Senate bill 460	4756
California Western States Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau	4897
Replacement agreement	4908, 4913
Lapse rate, 1925-28	4742
Lapse rate, 1929-38	4743
Calvert Distillers Corporation	4279
Cameron, W. J.	4845, 4852, 4865
Cammack, E. E.	4174,
4175, 4182-4222, 4229, 4232, 4240, 4242, 4251, 4252, 4255, 4259,	
4422, 4515, 4566, 4701, 4702, 4705, 4706, 4717-4720, 4722-4724	
4729-4731, 4785, 4830, 4835, 4848, 4852, 4856.	
Testimony of	4182-4222
Canada Life Assurance Co.	4746
Intercompany agreements:	
Annuities	4520, 4532, 4535, 4538,
4559, 4828, 4829, 4832, 4837, 4839, 4840-4842, 4846, 4852, 4882	
"Jumbo risks"	4903
Medical Information Bureau	4897
Replacement agreement	4908, 4913
Settlement options and surrender values	4571,
4629, 4835, 4836, 4840, 4849, 4865, 4872, 4881, 4891, 4893	
Lapse rate, 1925-28	4741
Lapse rate, 1929-38	4742, 4743
Canadian companies	4634
Intercompany agreements:	
Annuities	4513, 4526, 4551, 4828, 4829, 4834, 4837, 4855
Settlement options and surrender values	4590, 4629, 4853, 4881
Canton Institution for Savings	4477
Capital Life of Colorado	4897
Carnegie Tech.	4330
Carpenter, Samuel L., Jr.	4756
Carr, Fred P.	4757
Carson, Sam M.	4397,
4399, 4408, 4767, 4768, 4770, 4771, 4777, 4778, 4781, 4783	
Cathles, Lawrence M.	4918, 4919, 4925
Testimony of	4668-4684
Central Life Assurance Society	4746
Intercompany agreements:	
Medical Information Bureau	4897
Central Life Insurance Co. (Illinois)	4746, 4897
Central States Life	4889
Chace, George H.	4905, 4907
Chartered Life Underwriters	4662
Christie, William McL.	4761
Clark, Gilbert A., actuary, Equitable Life Insurance Co.:	
Testimony of	4313-4317
Clark, J. R.	4744, 4745
Cleveland, Grover	4346, 4347
Coburn, Arthur	4672, 4674, 4919, 4920, 4921
Cole, F. W.	4226, 4237
Colonial Life Insurance Co. of America, The	4746, 4897
Colorado Life Co.	4496
Intercompany agreements:	
Medical Information Bureau	4899
Replacement agreement	4908, 4915
Colorado Statutes	4930
Columbia Life	4899

	Page
Columbian Mutual Life.....	4899
Columbian National Life Insurance Co.....	4429, 4746
Intercompany agreements:	
"Jumbo risks".....	4903
Medical Information Bureau.....	4897
Nonparticipating rates.....	4277
Columbus Mutual Life.....	4897
Combined experience annuity table.....	4553, 4882
Commonwealth Life Association.....	4897
Committee on Actuaries.....	4687, 4688
Committee on Underwriting Large Risks.....	4642-4648
Confederation Life Association.....	4746, 4897
Lapse rate, 1929-38.....	4743
Connecticut General Life Insurance Co.....	4224, 4225, 4351, 4744, 4746
Intercompany agreements:	
Annuities.....	4515,
4517, 4520, 4526, 4528, 4531, 4532, 4534-4538, 4551, 4557,	
4828-4834, 4837-4846, 4849, 4851, 4852, 4855, 4856, 4857, 4886.	
Group Association..	4163, 4164, 4175, 4181, 4198, 4702, 4710, 4716, 4205
"Jumbo risks".....	4902, 4903
Medical Information Bureau.....	4897
Nonparticipating ordinary life insurance.....	4927-4929
Nonparticipating rates.....	4229,
4230, 4232-4234, 4236, 4238, 4240, 4242, 4244-4245, 4251, 4256,	
4259, 4260-4262, 4718, 4719, 4721-4724, 4729-4731.	
Rates.....	4732
Reinsurance.....	4674, 4925
Replacement agreement.....	4905
Settlement options and surrender values.....	4566,
4573, 4575-4577, 4582, 4605, 4612, 4613, 4617, 4618, 4622, 4629,	
4834-4836, 4840 4845, 4848, 4849, 4853-4856, 4858, 4865, 4866,	
4868, 4872, 4874, 4875, 4876, 4877-4881, 4884, 4891, 4892.	
Lapse rate, 1925-28.....	4741
Lapse rate, 1929-38.....	4742
Lapse ratio.....	4926
Little Entente, membership in.....	4613
Stockholders' dividends.....	4714
Connecticut General Statutes.....	4930
Connecticut Legislature.....	4436
Connecticut Mutual Life Insurance Co.....	4436, 4746
Intercompany agreements:	
Annuities.....	4522,
4524, 4527, 4531, 4532, 4537, 4538, 4550, 4551, 4828, 4829, 4832,	
4834, 4837-4842, 4844, 4846, 4850-4852, 4854, 4855, 4857, 4886.	
"Jumbo risks".....	4903
Medical Information Bureau.....	4898
Replacement agreement.....	4657, 4905, 4908, 4913, 4916
Settlement options and surrender values.....	4605,
4612, 4613, 4618, 4622, 4835, 4836, 4840, 4848, 4849, 4853, 4865,	
4872, 4874-4877, 4879-82, 4884, 4891, 4893, 4895.	
Lapse rate, 1925-28.....	4741
Lapse rate, 1929-38.....	4742
Lapse ratio.....	4926
Conservative Life of Indiana.....	4899
Conservative Life of West Virginia.....	4899
Constitution of the Association of Life Insurance Presidents.....	4748
Continental American Life Insurance Co.....	4746
Intercompany agreements:	
Medical Information Bureau.....	4898
Replacement agreement.....	4908, 4913
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Continental Association.....	4898
Continental Assurance Co.....	4746
Legislative activity.....	4757

	Page
Continental Life of Toronto.....	4899
Conway, Alfred.....	4190
Coogler, M. A.....	4761
Coolidge, Calvin.....	4912
Cooney, Robert L., inspector of agencies, New York Life.....	4369,
4393, 4429, 4443, 4767, 4768, 4770-4777, 4781, 4783	4783
Testimony of.....	4396-4418
Cotton, Senator.....	4497
Cox, Berkeley.....	4436, 4437, 4814
Cox, Guy W.....	4757
Cox, W. Howard.....	4350, 4757
Craig, James D.....	4162, 4168,
4169, 4179, 4190, 4262-4264, 4687, 4690, 4691, 4725, 4728, 4729,	4729,
4509, 4552, 4560, 4561, 4574, 4678, 4835, 4847, 4858, 4904, 4925	4925
Crane, Mr.....	4364, 4431, 4432, 4433, 4805, 4806, 4810
Creswell, C. F.....	4364,
4365, 4400, 4404, 4414, 4421, 4429, 4433, 4768, 4769, 4770, 4771,	4771,
4775, 4804, 4810.	
Crown Life.....	4898
Culpepper, Hon. J. W.....	4401, 4769
Cummings, Hon. M. Joseph.....	4427, 4430,
4432, 4493, 4498, 4802, 4805, 4806, 4807, 4808, 4809, 4810	4810
Cunningham, F. J.....	4865
Davenport, Dr. Donald H., special economic consultant, insurance study,	
Security and Exchange Commission.....	4282-4312
Testimony of.....	4684-4686
Daves, Dr.....	4416, 4776, 4777
Davis, Hon. J. Scott.....	4401, 4402, 4769
Davis, John W.....	4353
Davis, Judge E. M.....	4410, 4411, 4412, 4413, 4774
Dearing, A. P.....	4763
Dearing, Frank P.....	4385, 4386, 4761, 4762, 4763
DeBoer, Joseph A.....	4744, 4745
DeGroat, Floyd E.....	4422, 4423, 4425-4427, 4431,
4432, 4434, 4435, 4493, 4494, 4495, 4496, 4497, 4785, 4786, 4802	4802
"The savings bank in life insurance".....	4790-4801, 4493
Dekle, Ex-Senator E. E.....	4414, 4775
Delaware, Revised Code.....	4930
Dewey, Harley W.....	4839
Dewey, Judd.....	4501
Testimony of.....	4449, 4500
District of Columbia Code.....	4930
Dividends, stockholders', Aetna, Connecticut General, Travelers.....	4717
Division of Savings Bank Life Insurance of Massachusetts.....	4459
Dobbins, Harold.....	4415, 4776
Document stamp tax, Florida.....	4750
D'Olier, Franklin.....	4350, 4622, 4884
Dominion of Canada General Insurance Co.....	4899
Dominion Life Assurance Co.....	4898
Lapse rate, 1929-38.....	4743
Doremus, Cornelius.....	4744, 4745
Douglas, Governor.....	4454
Draper-Owens Co.....	4778
Dubuar, Charles.....	4861
Duffield, Mr.....	4263, 4264, 4350, 4729
Dugger, J. D.....	4761
Dunham, S. C.....	4744
Eastern Life.....	4899
Ecker, Frederick H.....	4263, 4264, 4271, 4563, 4728
Edgewater Beach Hotel.....	4670, 4672, 4918, 4919, 4925
Empire Gas & Electric Co.....	4701
Empire Life.....	4899
English, J. L.....	4744

	Page
Equitable Life Assurance Society of the United States.....	4266,
4346, 4347, 4350, 4364, 4729, 4744, 4746	
Intercompany agreements:	
Annuities.....	4515,
4516, 4526, 4528, 4530-32, 4534, 4535, 4537, 4552, 4826, 4828-30,	
4832, 4833, 4837-40, 4842, 4844, 4845, 4846, 4849, 4850, 4852,	
4853, 4857, 4886, 4888, 4889.	
Double indemnity provisions.....	4854, 4855
Group association -- 4164, 4165, 4179, 4207, 4688, 4689, 4706, 4710, 4716	
"Jumbo risks".....	4903, 4904
Medical Information Bureau.....	4898
Replacement agreement.....	4648,
4905, 4906, 4907, 4908, 4911-13, 4916, 4917	
Settlement options and surrender values.....	4574,
4576, 4578, 4597, 4605, 4612, 4613, 4618, 4622, 4624, 4626, 4629,	
4835, 4836, 4840, 4848, 4858, 4859-61, 4865, 4867, 4869, 4871-4576,	
4878-82, 4891, 4893	
Legislative activity.....	4364, 4802, 4803
Equitable Life Insurance Co. of Iowa.....	4744, 4746
Intercompany agreements:	
Annuities.....	4531-4533,
4537, 4551, 4828, 4829, 4837, 4839, 4842, 4844-47, 4852, 4855	
"Jumbo risks".....	4903
Medical Information Bureau.....	4898
Replacement agreement.....	4905, 4909, 4913
Settlement options and surrender values.....	4585,
4657, 4840, 4848, 4849, 4865, 4869, 4872, 4881, 4882	
Legislative activity.....	4757
Equitable Life Insurance Co., Washington, D. C.....	4313
Industrial terminations.....	4306, 4307, 4740
Intercompany agreements:	
Medical Information Bureau.....	4899
Equitable Life Insurance Co. of Canada.....	4898
Eureka Maryland Assurance Corporation.....	4899
Evans, Percy H.....	4574, 4835, 4858, 4865
Excelsior Life.....	4898
Farmers & Bankers Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4899
Lapse rate, 1925-28.....	4742
Lapse ratio.....	4926
Fearnside, H. M.....	4761
Federal banking holiday.....	4628, 4891
Federal income-tax laws.....	4873
Federal Life Insurance Co.....	4746, 4898
Federal Social Security Act.....	4442
Federal Trade Commission.....	4272
Federal supervision discussed.....	4388, 4389
Fidelity Mutual Life Insurance Co.....	4744-4746
Intercompany agreements:	
Annuities.....	4521,
4526, 4551, 4828, 4829, 4832, 4834, 4851, 4855, 4882, 4886	
"Jumbo risks".....	4903
Medical Information Bureau.....	4898
Replacement agreement.....	4905, 4908
Settlement options and surrender values.....	4605,
4612, 4853, 4865, 4872, 4874, 4881	
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
Fidelity Union Life.....	4898
Fields, Andrew C.....	4802
First National Bank of Valdosta, Ga.....	4414, 4775
Fiske, Haley.....	4168, 4169, 4690, 4691, 4744, 4745

	Page
Florida Association of Life Underwriters.....	4762, 4763
Florida Compiled General Laws.....	4930
Florida legislative activity, Memo 1935.....	4757
Florida Life Underwriters.....	4758
Flynn, Benedict D.....	4243, 4245, 4251, 4253, 4254, 4271, 4281, 4517, 4520, 4524, 4564, 4526, 4532, 4543, 4561, 4624, 4690, 4691, 4701, 4702, 4703, 4718, 4719-4725, 4729, 4730, 4848, 4882, 4843, 4187, 4192, 4208, 4222, 4223.
Testimony of.....	4154-4182, 4224-4240, 4258-4266, 4275-4278
Folks, A. B.....	4761
Foster, Alfred D.....	4744
Fouse, L. G.....	4744, 4745
Frank, Jerome N., chairman, Securities and Exchange Commission, state- ment of.....	4153-54
Franklin Life Insurance Co.....	4746
Intercompany agreements:	
Medical Information Bureau.....	4898
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Frazier-Lemke Act.....	4352, 4355, 4750
Frost, M. M.....	4761
Fuller, Governor.....	4496
Futch, Senator.....	4385, 4761
General American Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4656, 4908, 4914
Replacement agreement.....	4898
General Electric Co.....	4462
George Washington Life Insurance Co.....	4899
Georgia Code.....	4932
Georgia Underwriters Association, legislative committee.....	4369, 4396, 4397
Germania Life Insurance Co.....	4744
Gilbraltar Life & Accident Insurance Co.....	4915
Girard Life Insurance Co.....	4899
Globe Life Insurance Co.....	4899
Gore, Mr.....	4509, 4623, 4884
Graham, Mr.....	4688, 4689
Great American Life Insurance Co.....	4899
Great Britain, annuities.....	4532, 4537
Great National.....	4899
Great Northern Life Insurance Co.....	4899
Great Southern Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4898
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
Great-West Life Assurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4898
Replacement agreement.....	4656, 4903, 4908, 4915
Lapse rate, 1925-28.....	4741
Lapse rate, 1929-38.....	4742, 4743
Groezinger, L. B.....	4757
Group annuity business.....	4716
Group Association.....	4154-4223, 4687-4716
Activities of Group Association.....	4183
Group annuities.....	4206
Group death and dismemberment rates.....	4204
Group life rates.....	4186
Annuity business.....	4716
Antitwisting rules.....	4159, 4160
Applicability of antitrust legislation.....	4165
Attendance at meetings.....	4708

Group Association—Continued.

	Page
Committees.....	4706
Constitution.....	4703
Formation of Group Association.....	4180
Group insurance in United States.....	4710
Members.....	4707
Officers.....	4705
Origins and activities of informal association.....	4156
Restriction of competition.....	4210
Rulings, New York superintendent.....	4710
T rate and underwriting rules.....	4172
Underwriting rules.....	4711
Aetna Life Insurance Co.....	4163, 4164, 4174, 4182, 4198, 4205, 4207, 4688, 4689, 4703, 4705, 4706, 4710, 4711, 4716
Connecticut General Life Insurance Co.....	4163, 4164, 4175, 4198, 4702, 4710, 4716, 4205
Equitable Life Assurance Society of the United States.....	4164 4165, 4179, 4207, 4688, 4689, 4706, 4710, 4716
John Hancock Mutual Life Insurance Co.....	4174, 4182, 4716, 4702
Metropolitan Life Insurance Co.....	4163- 4166, 4168-4170, 4172, 4177, 4179, 4181, 4190, 4200, 4205, 4688, 4689, 4690, 4691, 4706, 4710, 4716.
New York Insurance Department.....	4157, 4174, 4176, 4179, 4183, 4190, 4191, 4199
New York Superintendent of Insurance.....	4178, 4179, 4183, 4187, 4191, 4193, 4221, 4222
Prudential Insurance Co of America.....	4163- 4165, 4172, 4176-4178, 4181, 4198, 4688, 4689, 4706, 4710, 4716
Travelers Insurance Co.....	4154, 4162-4164, 4174, 4198, 4207, 4687-4690, 4701-4703, 4710, 4716.
Group insurance:	
Competition in.....	4175, 4181
Costs, average.....	4155
Defined.....	4154
Growth.....	4155, 4156, 4687
Grout, H. A.....	4852, 4865, 4882
Guarantee Mutual Life Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4898
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Guaranty income life.....	4899
Guardian Life Insurance Co.....	4357, 4746
Intercompany agreements:	
Annuities.....	4522, 4524, 4526, 4537, 4538, 4551, 4828, 4829, 4832, 4834, 4844- 4847, 4852, 4855, 4886.
"Jumbo risks".....	4903
Medical Information Bureau.....	4898
Replacement agreement.....	4905, 4909
Settlement options and surrender values.....	4562, 4576, 4578, 4585, 4605, 4853, 4854, 4865, 4869, 4872, 4881, 4882.
Lapse rate, 1925-28.....	4741
Lapse rate, 1929-38.....	4742
Lapse ratio.....	4926
Guild, Governor.....	4452
Gulf Life.....	4899
Hall, Arthur F.....	4669, 4670, 4672, 4757, 4918, 4919, 4920, 4921
Hall, John A.....	4744
Hamilton, Andrew.....	4803
Hammond, H. Pierson.....	4230, 4232, 4242, 4247, 4259, 4276, 4717, 4718, 4719, 4722-1425, 4729, 4732
Hardcastle, E. E.....	4852
Hardee, Bascom O.....	4761
Hardin, John R.....	4350

	Page
Harper, Herbert C.....	4761
Hart, Mr.....	4729, 4857
Harvard Board of Overseers.....	4453
Harvard Medical School.....	4474
Haskins & Sells.....	4356
Hatch, J. P.....	4761
Henderson, E. C.....	4229, 4232, 4241, 4552, 4718, 4721, 4729-4731, 4744, 4836, 4837, 4838, 4842, 4844, 4848, 4849, 4867
Hill, J. Clarence.....	4761
Hogg, Robert L., assistant general counsel, Association of Life Insurance Presidents.....	4362, 4375-4396, 4399, 4404, 4408, 4416, 4422, 4428, 4443, 4761, 4762-4764, 4767, 4772-4774, 4776, 4777
Testimony of.....	4375-4396, 4428-4443
Holcombe, John Marshall, Jr., director, Life Insurance Sales Research Bureau.....	4341
Testimony of.....	4317-4338
Home Life Insurance Co.....	4332, 4744, 4746
Intercompany agreements:	
Annuities.....	4520, 4527, 4532, 4537, 4538, 4550, 4551, 4828, 4829, 4832, 4834, 4837, 4839, 4840, 4841, 4843-4847, 4851, 4852, 4854, 4855, 4857, 4886
"Jumbo risks".....	4903
Medical Information Bureau.....	4898
Replacement agreement.....	4905, 4909, 4913
Settlement options and surrender values.....	4578, 4591, 4605, 4612, 4613, 4617, 4840, 4853, 4861, 4865, 4872, 4874-4876 4878, 4879, 4881, 4882.
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
Home Life Insurance Co. of America.....	4898
Home Life v. Conway.....	4750
Home State Life Insurance Co.....	4899
Hordman, F. B.....	4761
Hoskins, assistant actuary.....	4232, 4718, 4719, 4722-4725, 4729-4732, 4852
Houston, David.....	4350
Howard, Mr.....	4717, 4718, 4722-4724, 4732
Howell, Valentine, vice president and actuary, Prudential.....	4266-4275, 4725, 4727, 4846, 4848, 4852, 4858, 4883, 4884, 4886, 4887, 4890
Testimony of.....	4266-4275, 4619-4626
Huebner, Dr. S. S.....	4662
Hughes, Don.....	4447
Hughes Investigation.....	4273, 4570
Hughes, Norman M.....	4757
Hull, Roger B.....	4436, 4814
Hunter, Dr. Arthur.....	4548, 4550, 4551, 4847-4850, 4852, 4854, 4855, 4858, 4859, 4860, 4865, 4868, 4869, 4882, 4889
Testimony of.....	4505-4541, 4570-4576, 4583-4584
Hunter, Robertson G.....	4865
Huntington, R. W.....	4230, 4241-4244, 4247, 4718, 4720, 4722
Hurd, Mr.....	4852, 4865
Hurrell, Alfred.....	4176, 4177, 4702
Hutcheson, W. A.....	4514, 4531, 4830, 4835, 4842, 4843, 4847, 4849, 4852, 4894
Testimony of.....	4626-4632
Idaho Code.....	4930
Ide, George E.....	4744, 4745
Illinois Bankers Life Assurance Co.....	4899
Illinois, Revised Statutes.....	4930
Imperial Life Assurance Co. of Canada:	
Intercompany agreements:	
Annuities.....	4532, 4828, 4829, 4837, 4839, 4852
Medical Information Bureau.....	4898
Settlement options and surrender values.....	4590, 4840, 4865, 4872, 4881, 4882
Lapse rate, 1929-38.....	4743
Indiana, Burns Annotated Statutes.....	4930
Indianapolis Life Insurance Co.....	4899

	Page
Industrial insurance.....	4281, 4737
Defined.....	4291
Policies, number written, 1918-37.....	4301-4305
Premiums, total in 1937 of 66 companies.....	4312
Terminations, 1922-37.....	4736
Terminations compared with number of policies in force, new policies issued and revivals.....	4738
Terminations, Equitable Life Insurance Co., Washington, D. C., January through March 1939.....	4740
Terminations of seven companies, 1924-38.....	4739
Industrial Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4899
Insurance Department of Massachusetts.....	4617, 4878
Insurance Department of Missouri.....	4649
Insurance Department of New Jersey.....	4887
Insurance Department of New York.....	4252, 4354, 4444, 4663
Settlement options and surrender values.....	4552, 4581-4582, 4599, 4601, 4860
Suggested new annuity table.....	4509, 4514, 4542
Intercompany agreements:	
Nonparticipating rates.....	4220-4230,
4232-4234, 4236, 4238, 4240-4242, 4244-4245, 4247-4248, 4251,	
4254, 4256, 4259-4267, 4271-4272, 4277-4279, 4281.	
Interstate Commerce Commission.....	4274
Inter-State Life & Accident Co.....	4899
Investment questionnaire.....	4508
Iowa Code.....	4930
Irons, Lewis A., deputy insurance commissioner of Georgia.....	4415, 4776
Ives, Norman P.....	4761
Jackson, H. H.....	4852, 4865
Jefferson Standard Life Insurance Co.....	4746
Intercompany agreements:	
Medical information bureau.....	4898
Replacement agreement.....	4909
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
John Hancock Mutual Life Insurance Co.....	4363, 4497, 4746
Intercompany agreements:	
Annuities.....	4520,
4522, 4526, 4531-4533, 4535, 4537-4538, 4551, 4557, 4826, 4828-	
4829, 4832-4833, 4836-4837, 4839, 4841-4842, 4844-4847, 4850-	
4852, 4855, 4857.	
Group Association.....	4174, 4182, 4702, 4716
"Jumbo risks".....	4903
Medical Information Bureau.....	4898
Replacement agreement.....	4905, 4909, 4912, 4914
Settlement options and surrender values.....	4576, 4605, 4612-4613, 4840,
4849, 4853-4854, 4865, 4872, 4874-4876, 4879, 4881-4882, 4891	
Johns, Charley E.....	4761
Jones, Bill.....	4382
Jones, Frank L.....	4905, 4907, 4911-4912
Testimony of.....	4648-4668
Jones, Hocker, Gladney & Grand.....	4750, 4786-4787
Jones, James C.....	4422-4425, 4785-4787
Judea Life Insurance Co.....	4905
Jumbo risks agreement.....	4642-4648
Membership in.....	4903
Report of executive committee.....	4902
Underwriting rules.....	4901
Kansas.....	4693
General statutes of.....	4930
Kansas City Life Insurance Co.....	4898
Kavanagh, Roger.....	4168, 4690
Kederich, George A.....	4907
Keffer, R.....	4245, 4721, 4729-4731, 4865
Kelly, Dan, Jr.....	4761

	Page
Kentucky Home Mutual Life Insurance Co.....	4899
Kentucky Statutes.....	4930
Kineke, F. D.....	4577, 4865, 4882
Kingsley, D. P.....	4474
Kingsley, William H.....	4421, 4757, 4785
Knight, G. F.....	4865
Knights Life Insurance Co.....	4899
Laird, John M., vice president, Connecticut General Life Insurance Co., Hartford, Conn.....	4230, 4232, 4245, 4247, 4259-4261, 4527, 4532, 4534-4536, 4566, 4572, 4574, 4577, 4582-4583, 4718-4724, 4757, 4834, 4838-4839, 4848, 4852, 4856-4858, 4860, 4865-4866, 4868-4869, 4902, 4925
Testimony of.....	4240-4243
LaFayette Life Insurance Co.....	4899
Lamar Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4899
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
Lannie Thompson case.....	4410-4413, 4774
Lapse rates.....	4741-4744
(See also Terminations.)	
Lapsed policies.....	4740
Larson, C. Wesley.....	4757
Larus, John R.....	4533-4534, 4587, 4835, 4838-4840, 4849, 4852-4853, 4865
La Sauvegarde Assurance Co.....	4899
Lawton & Cunningham, Messrs.....	4413, 4774
Lee, Robert.....	4497
Legal committees.....	4690-4691
Legislative activity.	
(See Association of Life Insurance Presidents.)	
Level premiums, explained.....	4284-4287
Liberty Life Insurance Co. of Kansas.....	4899
Liberty National Life Insurance Co.....	4899
Life & Casualty Insurance Co.....	4900
Life counsel.....	4691
Life form, modified.....	4719
Life Insurance Co. of Detroit.....	4900
Life Insurance Co. of Virginia.....	4306-4307, 4746
Intercompany agreements:	
Medical Information Bureau.....	4898
Policy containing State seal.....	4496
Life insurance edition of the National Underwriter.....	4255, 4265
Life insurance, group.....	4687, 4710
Life insurance rules, group.....	4711
Life insurance rulings, group.....	4710
Life Insurance Sales Research Bureau.....	4317, 4684-4686, 4741, 4926
Life insurance, terminations of.....	4281
Life rates, modified.....	4720-4721
Life Underwriters Association.....	4904-4905, 4807
Committee on law and legislation.....	4504
Life Underwriters' Association of the City of New York, Inc.....	4446-4447 4814-4815
Lincoln House.....	4462
Lincoln, Leroy A.....	4168-4170, 4179, 4350, 4360, 4394, 4691, 4754
Lincoln Liberty Life Insurance Co.....	4900
Lincoln National Life Insurance Co., The.....	4746
Intercompany agreements:	
"Jumbo risks".....	4903
Medical Information Bureau.....	4898
Reinsurance.....	4670, 4672-4674, 4919, 4925
Replacement agreement.....	4657, 4909, 4914, 4916
Lapse rate.....	4321, 4335
Lapse rate, 1925-28.....	4741
Lapse rate, 1929-38.....	4742
Lapse ratio.....	4926

	Page
Lindsay, L. Seton.....	4654, 4911-4912
Linton, M. A.....	4263-4264, 4726, 4728, 4757, 4846, 4848, 4905, 4907, 4912
Little Entente.....	4540, 4612, 4614-4616, 4875-4877
Membership in.....	4613
Little Gem life chart.....	4277
Little, J. F.....	4176, 4240, 4263, 4266, 4268-4270, 4515, 4574, 4619-4620, 4622-4624, 4702, 4719, 4726, 4728-4729, 4757, 4830, 4835, 4848-4849, 4858, 4865, 4889.
Lobbying.....	4345, 4802-4804
Lobbying and legislative activities. (See Association of Life Insurance Presidents.)	
Report of New York State joint legislative committee.....	4802
London Life Insurance Co., The.....	4746
Intercompany agreements:	
Medical Information Bureau.....	4898
Lapse rate, 1929-38.....	4743
Louisiana General Statutes.....	4930
Louisville Joint Stock Land Bank.....	4355
Luther, K. A.....	4905, 4907
Maddox, Baxter.....	4397
Maine, Revised Statutes.....	4930
Managers' Association.....	4425, 4787
Manhattan Life Insurance Co.....	4744, 4746
Intercompany agreements:	
Medical Information Bureau.....	4898
Replacement agreement.....	4905, 4909
Mann, Dr. J. M.....	4761
Manton, Dr.....	4453
Manufacturers Life Insurance Co., Toronto, Canada.....	4746
Intercompany agreements:	
"Jumbo risks".....	4903
Medical Information Bureau.....	4898
Replacement agreement.....	4909
Lapse.....	4322
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Maritime Life Insurance Co.....	4900
Martin, L. R.....	4865
Maryland, Annotated Code, Supp.....	4930
Maryland Life Insurance Co.....	4744, 4898
Massachusetts Division of Savings Bank Life Insurance.....	4459, 4821-4824
Massachusetts General Laws.....	4930
Massachusetts Life Underwriters Association.....	4430, 4493, 4804
Massachusetts Mutual Life Insurance Co.....	4723, 4744, 4746
Intercompany agreements:	
Annuities.....	4520, 4526, 4531-4532, 4535, 4537-4538, 4550-4551, 4828-4829, 4832- 4833, 4836-4837, 4839, 4841-4842, 4844-4847, 4849-4852, 4854- 4855, 4857, 4886.
"Jumbo risks".....	4903
Medical Information Bureau.....	4898
Replacement agreement.....	4905, 4909, 4912, 4914
Settlement options and surrender values.....	4576, 4605, 4612-4613, 4618, 4622, 4624, 4840, 4848, 4853, 4865, 4872, 4874-4876, 4879-4882, 4884, 4891, 4893, 4895.
Lapse.....	4321
Lapse rates, 1925-28.....	4741
Lapse rates, 1929-38.....	4742
Lapse ratio.....	4926
Massachusetts Protective Life Assurance Co.....	4900
Massachusetts Savings Bank Life Insurance.....	4298, 4419-4420, 4423-4424, 4427, 4434-4435, 4438-4440, 4449-4452, 4500-4504, 4786.
Massachusetts State actuary.....	4816-4820, 4822-4823
May, Emmett.....	4672, 4919

	Page
McAndless, A. J.	4672, 4919-4921, 4925
McArthur, A. G.	4761
McCankie, R. C.	4842, 4848
McKenzie, H. S.	4761
McKinney, J. M.	4761
McNamara, John C., Jr.	4907
McWilliams, W. A.	4761
Medical Information Bureau	4633-4642, 4896, 4919, 4920
Membership in	4897
Metropolitan Life Insurance Co.	4329, 4350, 4445, 4470, 4744-4746, 4754
Industrial terminations	4306-4307
Intercompany agreements:	
Annuities	4515,
4520, 4526-4528, 4531-4533, 4535, 4537-4538, 4541, 4545, 4547,	
4550-4551, 4556-4557, 4560-4561, 4563, 4826, 4828, 4830, 4832-	
4834, 48336-4842, 4844-4847, 4849-4852, 4855, 4857.	
Group Association	4162-4166, 4168-4170, 4172, 4177,
4179, 4181, 4190, 4200, 4205, 4688-4691, 4706, 4710, 4716	
"Jumbo risks"	4903
Medical Information Bureau	4898
Nonparticipating rates	4261-4267, 4722, 4724-4729
Reinsurance	4674, 4676, 4923, 4925
Replacement agreement	4905, 4909, 4911
Settlement options and surrender values	4574,
4578, 4585, 4592, 4605, 4612, 4620, 4622, 4624, 4629, 4840, 4848-	
4849, 4853-4854, 4858-4859, 4861, 4865, 4869, 4871-4872, 4874-	
4875, 4879, 4881-4882, 4888-4889, 4891-4892.	
Policy containing New York City seal	4497
Michigan Compiled Laws	4931
Michigan Life Insurance Co.	4900
Michigan Mutual Life Insurance Co.	4744
Mid-Continent Life Insurance Co.	4900
Midland Life Insurance Co.	4900
Midland Mutual Life Insurance Co.:	
Intercompany agreements:	
Replacement agreement	4909
Lapse rate, 1925-28	4742
Lapse rate, 1929-38	4743
Lapse ratio	4926
Midland National Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau	4900
Replacement agreement	4909
Midwest Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau	4900
Lapse rate, 1925-28	4742
Lapse rate, 1929-38	4743
Lapse ratio	4926
Miller, J. N.	4761
Milligan, Samuel	4865
Minnesota Mutual Life Insurance Co.	4746-4747, 4757
Intercompany agreements:	
Annuities	4526, 4833
Group Association	4716
Medical Information Bureau	4898
Replacement agreement	4656, 4909, 4914
Lapse rate, 1925-28	4742
Lapse rate, 1929-38	4743
Minnesota Statutes	4931
Mississippi Code	4931
Missouri Revised Statutes	4931
Missouri State Life Insurance Co.	4175, 4179, 4277, 4702
Intercompany agreements:	
"Jumbo risks"	4903

Monarch Life Insurance Co. of Winnipeg:	
Intercompany agreements:	Page
Medical Information Bureau.....	4900
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
Montana Revised Code.....	4931
Montgomery, Donald.....	4223
Montgomery, William, president, Acacia Mutual Life Insurance Co.....	4757
Testimony of.....	4339-4343
Montreal Life Insurance Co.....	4900
Monumental Life Insurance Co.....	4900
Moore, A. F.....	4744
Moore, Mrs. Frances.....	4771
Morris, Edward B.....	4162-4163, 4270, 4688-4689
Mortality tables, discussed.....	4234-4236, 4251-4253
Morton, Paul.....	4346-4347, 4744-4745
Mullinax, Perry.....	4773
Munn, Dr. John P.....	4744-4745
Murphy, H. G.....	4761
Murphy, Ray D.....	4574, 4584,
4852, 4858, 4860, 4865, 4869-4871, 4873, 4875-4876, 4878, 4880	
Testimony of.....	4576-4583, 4597-4603, 4642-4648
Mutual Benefit Life Insurance Co., The.....	4350, 4425, 4493, 4723, 4746
Intercompany agreements:	
Annuities.....	4520, 4521, 4526-4527, 4532, 4535, 4537-4538, 4550-4551, 4826, 4828-4829, 4832-4833, 4836-4837, 4839-4841, 4843-4846, 4851-4852, 4855, 4857
"Jumbo risks".....	4904
Medical Information Bureau.....	4898
Replacement agreement.....	4905, 4909, 4914
Settlement options and surrender values.....	4562, 4571-4572, 4576, 4605, 4612-4613, 4840, 4842, 4828-4829, 4832-4833, 4836-4837, 4839-4841, 4843-4846, 4851-4852, 4855, 4857.
Lapse rate, 1925-28.....	4741
Lapse rate, 1929-38.....	4742
Lapse ratio.....	4926
Mutual Life Assurance Co. of Canada.....	4746
Intercompany agreements:	
Medical Information Bureau.....	4898
Lapse rate, 1929-38.....	4743
Mutual Life & Citizens Assurance Co., Ltd.....	4900
Mutual Life Insurance Co.....	4350, 4385, 4744, 4746, 4802-4803
Intercompany agreements:	
Annuities.....	4514-4516, 4520, 4527, 4532, 4537-4538, 4551, 4826, 4828-4830, 4832-4834, 4836-4837, 4839-4841, 4843-4846, 4851-4852, 4855, 4857, 4886.
Medical Information Bureau.....	4898
Nonparticipating rates.....	4263, 4729
Replacement agreement.....	4654-4655, 4657, 4909, 4911-4912, 4916
Settlement options and surrender values.....	4562, 4571, 4574, 4577-4578, 4605, 4612-4613, 4622, 4624, 4626, 4629-4630, 4645, 4840, 4849, 4853-4854, 4858-4861, 4865, 4872, 4874-4875, 4879, 4881-4882, 4888, 4890-4891, 4893, 4895.
Lapse rate, 1925-28.....	4741
Lapse rate, 1929-38.....	4742
Lapse ratio.....	4926
Surrender charges.....	4309-4310
Mutual Life v. Sullivan (Washington annuities).....	4750
Mutual Trust Life Insurance Co.....	4746-4747
Intercompany agreements:	
Medical Information Bureau.....	4898
Replacement agreement.....	4909
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926

	Page
Myrick, Julian S.....	4907
National Association of Life Underwriters.....	4422, 4425, 4436, 4785
National convention of insurance commissioners.....	4157
National Equity Life Insurance Co.....	4900
National Fidelity Life Insurance Co.....	4900
National Guardian Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4900
Lapse.....	4322
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
National Life & Accident Insurance Co.....	4746
Intercompany agreements:	
Medical Information Bureau.....	4898
Replacement agreement.....	4910, 4914
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
National Life Insurance Co.:	
Intercompany agreements:	
Annuities.....	4520, 4527, 4532-4533, 4537-4538, 4551, 4828-4829, 4832, 4834, 4837, 4839, 4844-4847, 4851, 4855, 4886
"Jumbo risks".....	4904
Medical Information Bureau.....	4898, 4900
Replacement agreement.....	4905, 4910, 4914
Settlement options and surrender values.....	4576, 4605, 4612-4613, 4617-4618, 4622-4623, 4840, 4853, 4865, 4872, 4874, 4876, 4878-4881, 4884.
Lapse ratio.....	4926
National Life Assurance Co. of Canada.....	4898
National Life Insurance Co. of Vermont.....	4349-4350, 4434, 4473-4474, 4745-4746
Lapse rate, 1925-28.....	4741
Lapse rate, 1929-38.....	4742
Net cost.....	4483
National Old Line Insurance Co.....	4900
National Underwriter, life insurance edition.....	4255, 4265
Nebraska.....	4695
Compiled statutes of.....	4931
Nelson, Senator H. W.....	4414, 4775
Nevada, Compiled Statutes of.....	4931
New England Mutual Life Insurance Co.....	4261, 4350, 4488, 4498-4499, 4724, 4730, 4744, 4747
Intercompany agreements:	
Annuities.....	4522, 4524, 4526, 4532-4533, 4537-4538, 4550, 4551, 4828-4829, 4832, 4834-4837, 4839, 4844-4847, 4851-4852, 4855, 4857
"Jumbo risks".....	4904
Medical Information Bureau.....	4898
Replacement agreement.....	4905, 4910, 4914
Settlement options and surrender values.....	4576, 4605, 4612-4613, 4840, 4849, 4854, 4865, 4872, 4874-4876, 4879, 4881-4882
Lapse rate, 1925-28.....	4741
Lapse rate, 1929-38.....	4742
Net cost.....	4483
New Hampshire Public Laws.....	4931
New Jersey Revised Statutes.....	4932
New Mexico Statutes.....	4931
New World Life Insurance Co.....	4900
New York:	
Code.....	4578, 4600, 4850
Consolidated Laws.....	4932
Insurance Department.....	4252, 4354, 4444
Intercompany agreements:	
Group association.....	4157, 4174, 4176, 4179, 4183, 4190-4191, 4199

New York—Continued.

Insurance Department—Continued.	Page
Insurance law.....	4178,
4183, 4187, 4199-4200, 4215, 4222, 4703,	4710
Insurance report.....	4543
Reports.....	4206
Savings bank life insurance.....	4420, 4424,
4439-4440, 4449, 4500-4504	
Superintendent of insurance.....	4252, 4501,
4509, 4515, 4577, 4663,	4710
New York City Board of Aldermen and Council.....	4354
New York City contemplated suit.....	4354, 4750
New York Life Insurance Co.....	4263, 4271,
4329, 4349-4350, 4396, 4398, 4405-4406, 4410, 4415,	
4417-4418, 4445, 4723, 4729, 4744, 4747, 4803	
Intercompany agreements:	
Annuities.....	4505-4506,
4515-4517, 4520, 4524, 4526, 4529-4535, 4537, 4562, 4826, 4828-	
4834, 4836-4846, 4849-4852, 4855, 4857	
"Jumbo risks".....	4904
Medical Information Bureau.....	4633, 4898
Replacement agreement.....	4654, 4910-4912, 4914
Settlement options and surrender values.....	4574,
4576, 4578, 4581, 4585, 4612, 4619, 4622-4624, 4626, 4629, 4840,	
4845, 4848-4849, 4853-4854, 4858-4861, 4865, 4869, 4872, 4874-	
4876, 4879, 4881-4882, 4886, 4889, 4891-4893.	
Lapse.....	4332
New York Savings Bank, The.....	4500, 4825
Nonparticipating rates.....	4223-4280, 4717-4732
Intercompany agreements:	
1933 rate increase.....	4229
1935 rate increase.....	4259
Cooperation with participating companies.....	4262-4275
1937 rate increase.....	4275
Aetna Life Insurance Co.....	4229,
4232-4233, 4240-4242, 4247, 4256, 4259, 4261-4262, 4264, 4701,	
4718-4724, 4729-4731, 4843, 4927-4928.	
American Life convention.....	4230
Atlantic Life Insurance Co.....	4277
Columbian National Life Insurance Co.....	4277
Connecticut General Life Insurance Co.....	4229-
4230, 4232-4234, 4236, 4238, 4240, 4242, 4244-4245, 4251, 4256,	
4259, 4260-4262, 4718-4719, 4721-4724, 4729-4731.	
Metropolitan Life Insurance Co.....	4248, 4261-4267, 4722, 4724-4729
Pacific Mutual Life Insurance Co.....	4277
Provident Mutual Life Insurance Co.....	4262-4267, 4723-4729
Prudential Insurance Co. of America.....	4262-4267,
4272, 4719-4722, 4724-4726, 4728-4729	
Travelers Insurance Co., The.....	4843, 4927-4929
Nordhouse, John.....	4745
North American Life Assurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4898
Lapse rate, 1929-38.....	4743
North American Life Insurance Co.....	4898
North American Reassurance Co.:	
Intercompany agreements:	
"Jumbo risks".....	4904
Medical Information Bureau.....	4900
Reinsurance.....	4668, 4672-4675, 4677, 4918-4922, 4925
North Carolina Code.....	4931
North Dakota Compiled Laws.....	4931
Northern Life Assurance Co. of Canada.....	4900
Northern Life Insurance Co.....	4898

	Page
Northwestern Mutual Life Insurance Co.....	4723
Intercompany agreements:	
Annuities..... 4520, 4524, 4526, 4529, 4532-4534, 4551,	4826,
4828-4829, 4832-4833, 4835-4837, 4839, 4851-4852, 4855,	4857
"Jumbo risks".....	4904
Medical Information Bureau.....	4898
Settlement options and surrender values..... 4571, 4573-4574,	4576, 4590, 4605, 4612-4613, 4618, 4622, 4842, 4849, 4853-4854,
4865, 4872, 4874-4876, 4879-4882, 4884, 4891, 4893, 4895.	4321
Lapse.....	4741
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4483
Net cost.....	4310
Surrender charges.....	
Northwestern National Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4898
Replacement agreement.....	4910
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
O'Brian, John Lord..... 4546-4548,	4554
Occidental Life Insurance Co. of California.....	4747
Intercompany agreements:	
Group association.....	4716
Medical Information Bureau.....	4898
Lapse.....	4322
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
Occidental Life Insurance Co., Raleigh, N. C.:	
Intercompany agreements:	
Medical Information Bureau.....	4900
Replacement agreement.....	4910
Ohio General Code.....	4931
Ohio National Life Insurance Co.....	4747
Intercompany agreements:	
Medical Information Bureau.....	4900
Reinsurance.....	4925
Ohio State Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4898
Replacement agreement.....	4910
Oklahoma Statutes.....	4931
Old Line Life Insurance Co. of America.....	4747
Intercompany agreements:	
Medical Information Bureau.....	4898
Replacement agreement..... 4910, 4914	4224, 4281
Ordinary insurance.....	4740
Gain or loss from surrenders and lapses.....	4735, 4737
Terminations.....	4696
Oregon.....	4931
Code.....	
Oregon Mutual Life Insurance Co.	
Intercompany agreements:	
Replacement agreement.....	4910
Lapse Rate, 1925-28.....	4742
Lapse Rate, 1929-38.....	4743
Owens, Frank C.....	4778
Pacific Mutual Life Insurance Co.....	4744, 4747
Intercompany agreements:	
"Jumbo risks".....	4904
Medical Information Bureau.....	4898
Nonparticipating rates.....	4277
Replacement agreement..... 4910, 4915	

Pacific Mutual Life Insurance Co.—Continued.	Page
Lapse rate, 1925-28.....	4741
Lapse rate, 1929-38.....	4742
Lapse ratio.....	4926
Pan-American Life Insurance Co.:	
Intercompany agreements:	
"Jumbo risks".....	4904
Medical Information Bureau.....	4898
Replacement agreement.....	4910, 4914
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Pannill, William.....	4761
Park, Hon. Orville A.....	4402, 4769
Parker, F. P.....	4761
Parker, J. G.....	4865
Parkinson, Thomas I.....	4263, 4350, 4729, 4860
Parrish, J. J.....	4761
Patterson, Prof. Edwin W.....	4578
Paul Revere Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4900
Peabody, Charles A.....	4744
Peninsular Life Insurance Co.....	4900
Penn Mutual Life Insurance Co., The.....	4421
Intercompany agreements:	
Annuities.....	4522,
4526, 4531-4535, 4537-4538, 4551, 4826, 4828-4829, 4832-4833,	
4836-4839, 4841-4847, 4851-4852, 4855.	
"Jumbo risks".....	4904
Medical Information Bureau.....	4898
Replacement agreement.....	4905, 4910, 4915
Settlement options and surrender values.....	4576,
4590, 4605, 4612-4613, 4617, 4840, 4848-4850, 4853,	
4874-4876, 4878-4879, 4881-4882, 4886, 4891, 4893, 4895.	
Lapse rate, 1929-38.....	4742
Lapse ratio.....	4926
Pennsylvania Statutes Annotated, Supp.....	4931
Penny Savings Bank of Boston.....	4455
Peoples Life Insurance Co. (District of Columbia):	
Industrial terminations.....	4306-4307
Peoples Life Insurance Co. (Indiana).....	4898
Peoples Savings Bank.....	4454
Peoria Life Insurance Co.....	4672-4673, 4919, 4921
Perrin, O. W.....	4835, 4848, 4852, 4865
Phelps, J. T.....	4744
Philadelphia Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4898
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
Phillips, S. B.....	4757
Phillips, T. A.....	4757
Phoenix Mutual Life Insurance Co.....	4263, 4723, 4728, 4730, 4747
Intercompany agreements:	
Annuities.....	4522,
4524, 4527, 4532-4533, 4535, 4537-4538, 4550-4551, 4828-4829,	
4832, 4834-4839, 4841-4844, 4846-4847, 4850, 4852, 4854-4855,	
4857.	
"Jumbo risks".....	4904
Medical Information Bureau.....	4898
Replacement agreement.....	4905, 4910
Settlement options and surrender values.....	4562,
4576, 4587, 4605, 4612-4613, 4618, 4840, 4845, 4849, 4853, 4865,	
4872, 4874-4877, 4879-4882, 4886, 4889, 4891.	
Lapse rate, 1929-38.....	4742
Lapse ratio.....	4926
Pillsbury, Madison & Sutro.....	4757

Pilot Life Insurance Co.:

Intercompany agreements:	Page
Medical Information Bureau.....	4898
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
Pink, Louis H.....	4578-4579, 4860-4861
Pioneer American Life Insurance Co.....	4900
Plantz C. B., assistant vice president, New York Savings Bank:	
Testimony of.....	4500-4504
Policies:	
Lapsed.....	4740
Surrendered.....	4740
Policyholders National Life Insurance Co.....	4900
Postal Life Insurance Co.....	4900
Praetorians, The.....	4898
Premium tax, Tennessee.....	4750
Premium tax ordinance, West Virginia.....	4750
Prebyterian Ministers' Mutual.....	4484
Procurement Division of the Treasury.....	4272
Protected Home Circle.....	4900
Protective Life Insurance Co.....	4900
Provident Institution for Savings.....	4457
Provident Life & Accident Insurance Co.....	4900
Provident Life & Trust Co.....	4744
Provident Life Insurance Co.....	4747
Intercompany agreements:	
Medical Information Bureau.....	4900
Provident Mutual Life Insurance Co.....	4261
Intercompany agreements:	
Annuities.....	4522,
4524, 4527, 4530-4532, 4535, 4537-4538, 4551, 4828-4829, 4832-	
4833, 4836-4837, 4839-4841, 4844, 4846-4847, 4849-4852, 4855,	
4857.....	
"Jumbo risks".....	4904
Medical information bureau.....	4898
Nonparticipating rates.....	4262-4267, 4723-4729
Replacement agreement.....	4657, 4905, 4910, 4915-4916
Settlement options and surrender values.....	4576-
4577, 4585-4586, 4588, 4591, 4594-4595, 4605, 4613-4614, 4622,	
4624, 4840, 4848-4849, 4853, 4865, 4869-4873, 4875, 4878-4882,	
4884, 4889, 4891, 4893, 4895.....	
Lapse rate, 1929-38.....	4742
Lapse ratio.....	4926
Net cost.....	4483
Provident Savings.....	4744
Prudential Assurance Co., Ltd.....	4843, 4900
Prudential Insurance Co. of America.....	4240,
4242, 4308, 4316, 4329, 4350, 4744-4745, 4747	
4306-4307	
Industrial terminations.....	
Intercompany agreements:	
Annuities.....	4515,
4520, 4526-4527, 4529, 4531-4533, 4535, 4537-4538, 4551, 4826,	
4828-4830, 4832-4834, 4836-4840, 4842, 4844-4847, 4851-4852,	
4855, 4857, 4886.....	
Group association.....	4163-
4165, 4172, 4176-4178, 4181, 4198, 4688-4689, 4706, 4716, 4810	
"Jumbo risks".....	4904
Medical information bureau.....	4898
Nonparticipating rates.....	4262-
4267, 4272, 4719-4722, 4724-4726, 4728-4729	
Replacement agreement.....	4654-4655, 4911-4912
Settlement options and surrender values.....	4574,
4577, 4585, 4605, 4612-4613, 4619-4622, 4624-4625, 4629, 4848-	
4849, 4853, 4858, 4865, 4869, 4871-4872, 4874-4875, 4879, 4881,	
4883-4885, 4887-4891, 4893.....	

	Page
Puritan Life Insurance Co.....	4747, 4804-4806, 4900
Pyramid Life Insurance Co., Arkansas.....	4900
Pyramid Life Insurance Co., Missouri.....	4900
Radford suit.....	4352, 4354, 4355, 4750
Rates, life.....	4717
Recording and Statistical Corporation.....	4636, 4637, 4640, 4641, 4897
Recording bureau.....	4902
Reilly, Joseph A.....	4405
Testimony of.....	4447
Reinsurance conference.....	4668-4684, 4922, 4924, 4925
Nature of conference.....	4668, 4669-4684
Risks.....	4676, 4922
Uniform rates.....	4673-4677
Reliance Life Insurance Co.....	4747, 4898
Remington's Revised Statutes.....	4701
Replacement agreement.....	4648-4668
Exceptions made by signatory companies.....	4913
Plan of operation.....	4906
Record of intercompany replacements.....	4916, 4917
Report of committee.....	4904
Report of nonsignatory companies.....	4918
Signatory companies.....	4907
Report of New York State Joint Legislative Committee.....	4802-4804
Republic National Life Insurance Co.....	4900
Reserve Loan Life Insurance Co.....	4747, 4898
Rhode Island General Laws.....	4931
Rhode Island Underwriters Association legislative committee.....	4363
Roberts, N. E.....	4761
Rockford Life Insurance Co.....	4900
Rogers, John R.....	4761
Roosevelt, Theodore.....	4346
Root, Clark, Buckner & Ballantine.....	4354
Rothwell, Bernard J.....	4453
Rowley, Dr. R. L.....	4902
Royal Insurance Co., Ltd.....	4900
St. Louis Mutual Life Insurance Co.....	4899
Saskatchewan Life Insurance Co.....	4900
Saunders, Harry H.....	4761
Savage, C. A.....	4761
Savings Bank Journal.....	4457
Savings Bank in Life Insurance, The (Floyd E. DeGroat).....	4493, 4790-4801
Savings Bank life insurance:	
Massachusetts system.....	4298, 4419-4421, 4423, 4424, 4427, 4434, 4435, 4438-4440, 4449-4452, 4500-4504, 4786
Amounts written and terminated, 1938.....	4818
Banks issuing.....	4454, 4816
Expenses, percent of premium income, savings bank ordinary and industrial.....	4476, 4820
Experience, 30 years, statement.....	4491, 4823
Growth.....	4455, 4816, 4824
History and description.....	4449
Illustration of 10 years' experience, issues of 1929.....	4482, 4821
Insurance in force, comparison.....	4491, 4823
Interest earned on investments.....	4475, 4820
Mortality experience.....	4473, 4819
Number and types of selling agencies.....	4463, 4817
Number of persons insured.....	4466, 4817
Proportions of amounts terminated by lapse and surrender in banks and companies.....	4471, 4819
Ratios surplus to reserve, comparison.....	4488, 4822
Ten year net cost comparison.....	4485, 4822
New York system.....	4420, 4424, 4439, 4440, 4449, 4500-4504, 4825
Opposition to savings bank life insurance.....	4419-4449
Against Connecticut legislation.....	4437
Against Missouri legislation.....	4422
Against New Hampshire legislation.....	4433

Savings Bank life insurance—Continued.

Opposition to savings bank life insurance—Continued.

	Page
Against New York legislation	4420, 4447
Against Pennsylvania legislation	4426
Against Rhode Island legislation	4429
Attacks on Massachusetts legislation	4493
Attitude of Association of Life Insurance Presidents	4419
Sawyer, C. B.	4529, 4530
Schelker, W. G.	4574, 4597, 4858, 4872
Schenley Distillers	4198
Seranton Life Insurance Co.	4900
Seaboard Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau	4900
Replacement agreement	4910
Sears, Francis P.	4422, 4757, 4785
Security Life & Trust Co.	4900
Security Mutual Life Insurance Co.	4744, 4747
Intercompany agreements:	
Medical Information Bureau	4898, 4900
Replacement agreement	4910
Securities and Exchange Commission	4826-4827, 4857, 4880, 4926, 4927
Settlement options:	
Abuses	4587
Complexity	4570-71
Definition	4570
Intercompany agreements:	
Activities of Edward Wayne Marshall, vice president and actuary,	
Provident Mutual Life Insurance Co.	4585
Activities of special subcommittee of actuaries	4576
Origins of efforts to curtail settlement options	4577
Actuarial Society	4587
Aetna Life Insurance Co.	4576,
4585, 4605, 4612, 4613, 4619, 4622, 4629, 4836, 4840, 4848, 4849,	
4853, 4856, 4869, 4872, 4873-4876, 4879, 4881, 4882, 4884, 4891-	
4893, 4895.	
Berkshire Life Insurance Co.	4590, 4605, 4853, 4872, 4881
Canada Life Assurance Co.	4571,
4629, 4835, 4836, 4840, 4849, 4865, 4872, 4881, 4891, 4893	
Canadian companies	4590, 4629, 4853, 4881
Connecticut General Life Insurance Co.	4566,
4573, 4575-4577, 4582, 4605, 4612, 4613, 4617, 4618, 4622, 4629,	
4834, 4835, 4836, 4840, 4845, 4848, 4849, 4853, 4854-4856, 4858,	
4865, 4866, 4868, 4872, 4874, 4875, 4876, 4877-4881, 4884, 4891	
4892.	
Connecticut Mutual Life Insurance Co.	4605,
4612, 4613, 4618, 4622, 4835, 4836, 4840, 4848, 4849, 4853, 4865,	
4872, 4874-4877, 4879-4882, 4884, 4891, 4893, 4895.	
Equitable Life Assurance Society of the United States	4574,
4576, 4578, 4597, 4605, 4612, 4613, 4618, 4622, 4624, 4626, 4629,	
4835, 4836, 4840, 4848, 4858, 4859-4861, 4865, 4867, 4869, 4871-	
4876, 4878-4882, 4891, 4893.	
Equitable Life Insurance Co. of Iowa	4585,
4657, 4840, 4848, 4849, 4865, 4869, 4872, 4881, 4882	
Fidelity Mutual Life Insurance Co.	4605,
4612, 4853, 4865, 4872, 4874, 4881	
Guardian Life Insurance Co.	4562,
4576, 4578, 4585, 4605, 4853, 4854, 4865, 4869, 4872, 4881, 4882	
Home Life Insurance Co.	4578,
4591, 4605, 4612, 4613, 4617, 4840, 4853, 4861, 4865, 4872, 4874-	
4876, 4879, 4881, 4882.	
Imperial Life Assurance Co. of Canada	4590,
4840, 4865, 4872, 4881, 4882	
Insurance Department of New York	4552, 4581, 4582, 4599, 4601, 4860
John Hancock Mutual Life Insurance Co.	4576,
4605, 4612, 4613, 4840, 4849, 4853, 4854, 4865, 4872, 4874-4876,	
4879, 4881, 4882, 4891.	

Settlement options—Continued.

Intercompany agreement—Continued.

	Page
Massachusetts Mutual Life Insurance Co.....	4576,
4605, 4612, 4613, 4618, 4622, 4624, 4840, 4848, 4853, 4865, 4872,	
4874-4876, 4879-4882, 4884, 4891, 4893, 4895.	
Metropolitan Life Insurance Co.....	4574,
4578, 4585, 4592, 4605, 4612, 4620, 4622, 4624, 4629, 4840, 4848,	
4849, 4853, 4854, 4858, 4859, 4861, 4865, 4869, 4871, 4872, 4874,	
4875, 4879, 4881, 4882, 4888, 4889, 4891, 4892.	
Mutual Benefit Life Insurance Co., The.....	4562,
4571, 4572, 4576, 4605, 4612, 4613, 4828, 4829, 4832, 4833, 4836,	
4837, 4839-4841, 4842, 4843-4846, 4851, 4852, 4855, 4857.	
Mutual Life Insurance Co.....	4562,
4571, 4574, 4577, 4578, 4605, 4612, 4622, 4624, 4626, 4629, 4630,	
4645, 4840, 4849, 4853, 4854, 4858-4861, 4865, 4872, 4874, 4875,	
4879, 4881, 4882, 4888, 4890, 4891, 4893, 4895.	
National Life Insurance Co.....	4576, 4605, 4612, 4613, 4617, 4618,
4622, 4623, 4840, 4853, 4865, 4872, 4874, 4876, 4878-4881, 4884	
New England Mutual Life Insurance Co.....	4576, 4605, 4612,
4613, 4840, 4849, 4854, 4865, 4872, 4874-4876, 4879, 4881, 4882	
New York Life Insurance Co.....	4574,
4576, 4578, 4581, 4585, 4612, 4619, 4622-4624, 4626, 4629, 4840,	
4845, 4848, 4849, 4853, 4854, 4858-4861, 4865, 4869, 4872, 4874-	
4876, 4879, 4881, 4882, 4886, 4889, 4891-4893	
Northwestern Mutual Life Insurance Co.....	4571, 4573,
4574, 4576, 4590, 4605, 4612, 4613, 4618, 4622, 4842, 4849, 4853,	
4854, 4865, 4872, 4874-4876, 4879-4882, 4884, 4891, 4893, 4895	
Penn Mutual Life Insurance Co., The.....	4576,
4590, 4605, 4612, 4613, 4617, 4840, 4848-4850, 4853, 4872, 4874-	
4876, 4878, 4879, 4881, 4882, 4886, 4891, 4893, 4895	
Phoenix Mutual Life Insurance Co.....	4562,
4576, 4587, 4605, 4612, 4613, 4618, 4840, 4845, 4849, 4853, 4865,	
4872, 4874-4877, 4879-4882, 4886, 4889, 4891	
Provident Mutual Life Insurance Co.....	4576, 4577, 4585, 4586, 4588, 4591,
4594, 4595, 4605, 4613, 4614, 4622, 4624, 4840, 4848, 4849, 4853,	
4865, 4869-4873, 4875, 4878-4882, 4884, 4889, 4891, 4893, 4895	
Prudential Insurance Co. of America.....	4574,
4577, 4585, 4605, 4612, 4613, 4619-4622, 4624, 4625, 4629, 4848,	
4849, 4853, 4858, 4865, 4869, 4871, 4872, 4874, 4875, 4879, 4881,	
4883-4885, 4887-4891, 4893	
State Mutual Life Assurance Co.....	4605,
4612, 4613, 4622, 4853, 4865, 4872, 4874-4876, 4879, 4881, 4884	
Sun Life Assurance Co. of Canada.....	4605, 4629,
4840, 4848, 4849, 4853, 4854, 4865, 4872, 4881, 4886, 4891, 4893	
Travelers Insurance Co., The.....	4576, 4622, 4629, 4840, 4848,
4849, 4853, 4854, 4865, 4872, 4881, 4884, 4886, 4891, 4892, 4893	
Union Central Life Insurance Co., The.....	4576,
4605, 4612, 4613, 4848, 4853, 4874, 4875, 4879, 4881, 4889, 4891	
United States Life Insurance Co.....	4576, 4849, 4881
Interest rates.....	4603-4619
Service Life Insurance Co.....	4900
Shenandoah Life Insurance Co.....	4898
Shepherd, B. E.....	4422, 4423, 4757, 4785, 4786, 4787
Shepherd, C. O.....	4729, 4730, 4865
Shepherd, Jurant T.....	4761
Simon, Leon G.....	4907
Sisk, Senator.....	4769
Sisley, Edward J.....	4907
Smith, Bill.....	4403
Smith, George Willard.....	4350
Smith, Guy A.....	4426, 4427, 4432, 4444, 4801, 4802
Smith, Dr. S. C.....	4761
Smith, W. H.....	4926
Social Security Act.....	4442
South Carolina.....	4697
Code.....	4932

	Page
South Dakota Code.....	4932
Tax case.....	4750
Southeastern Life Insurance Co.....	4900
Southland Life Insurance Co.....	4747
Intercompany agreements:	
Medical Information Bureau.....	4898
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
Southwestern Life Insurance Co.....	4899
Sovereign Life Insurance Co.....	4900
Special Commission for Investigation and Study of the Banking Structure of Massachusetts, The.....	4497
Spectator Insurance Yearbook.....	4156, 4186, 4206, 4212, 4224, 4282, 4296, 4308, 4310, 4506, 4567, 4896
Springfield Five Cent Savings Bank.....	4461
Standard annuity table.....	4547-4551, 4559, 4562, 4850-4853
Standard Life Assurance Co.....	4899
Standard Life Insurance Co. of America:	
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Standard Life Insurance Co., Pennsylvania:	
Intercompany agreements:	
Medical Information Bureau.....	4900
Lapse ratio.....	4926
Standard mortality table.....	4855
State Association of Life Insurance Companies.....	4397
State Farm Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4900
Replacement agreement.....	4911
State Life Insurance Co.....	4899
State Life Underwriters Association.....	4757
State Mutual Life Assurance Co.....	4747, 4422, 4744, 4785
Intercompany agreements:	
Annuities.....	4526, 4532, 4550, 4551, 4826, 4829, 4833, 4837, 4839, 4847, 4851, 4852, 4854, 4855.
"Jumbo risks".....	4904
Medical Information Bureau.....	4899
Replacement agreement.....	4660, 4911
Settlement options and surrender values.....	4605, 4612, 4613, 4622, 4853, 4865, 4872, 4874-4876, 4879, 4881, 4884
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
State Reserve Life Insurance Co.....	4900
State Unemployment Act.....	4442
Stearns, Maurice H.....	4363
Stewart Dry Goods Co.....	4377
Stockholders' dividends, Aetna, Connecticut General, and Travelers.....	4717
Stockton, James R.....	4764
Strong, W. M.....	4574, 4577, 4858, 4859, 4865, 4882
Stutsman, Dr.....	4674
Summary of statutory prerequisites for licensing of life insurance agents....	4172
Sumners, Merle G.....	4499
Sun Life Assurance Co. of Canada.....	4164, 4747
Intercompany agreements:	
Annuities.....	4520, 4531, 4532, 4537, 4538, 4550, 4828, 4829, 4832, 4836, 4837, 4839, 4840, 4842-4846, 4850-4852, 4857.
Group Association.....	4179, 4716
"Jumbo risks".....	4904
Medical Information Bureau.....	4899
Reinsurance.....	4674, 4676

Sun Life Assurance Co. of Canada—Continued	
Intercompany agreements—Continued.	Page
Replacement agreement.....	4911
Settlement options and surrender values.....	4605, 4629,
4840, 4848, 4849, 4853, 4854, 4865, 4872, 4881, 4886, 4891,	4893
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Sun Life Insurance Co. of America.....	4747
Intercompany agreements:	
Medical Information Bureau.....	4900
Replacement agreement.....	4911, 4915
Superintendent of Insurance of New York.....	4252, 4501, 4710
Intercompany agreements:	
Group Association.....	4178, 4179, 4183, 4187, 4191, 4193, 4221, 4222
Supreme Court, United States.....	4353, 4354, 4377, 4378
Surplus, changes in (ordinary nonparticipating business)—(Aetna, Con-	
necticut General, and Travelers).....	4717
Surrender values and surrender charges, discussed.....	4619-4632
T rate.....	4172, 4178, 4187, 4194, 4197
Tariff Commission.....	4272
Tarbell, G. E.....	4744, 4745
Taxation, State, discussed.....	4392, 4393
Taylor, Paul.....	4578, 4600, 4860, 4861
Teachers' Insurance Annuity Association of New York.....	4484
T. Eaton Life Insurance Co.....	4900
Tebbetts, Walter.....	4617, 4836, 4847, 4852, 4865, 4878
Telco Holding Co.....	4764
Tennessee Code.....	4932
Terminations:	
Equitable Life Insurance Co., Washington, D. C.....	4740
Industrial.....	4736, 4738
Of 7 companies.....	4739
Ordinary.....	4735
Ordinary and industrial.....	4737
Terminations of life insurance, ordinary and industrial.....	4281-4283,
4287-4345, 4684, 4733, 4735-4741, 4926, 4927	
Definitions of types of terminations.....	4287
Experience of Equitable Life Insurance Co. of Washington, D. C.....	4313
Lapse rates:	
Acacia Mutual Life Insurance Co.....	4742, 4743
Aetna Life Insurance Co.....	4741, 4742, 4926
Atlantic Life Insurance Co.....	4742, 4743, 4926
Bankers Life Insurance Co., Iowa.....	4741, 4742
Bankers Life Insurance Co., Nebr.....	4742, 4743, 4926
California Western States Life Insurance Co.....	4742, 4743
Canada Life Assurance Co.....	4741, 4742, 4743
Confederation Life Association.....	4743
Connecticut General Life Insurance Co.....	4741, 4742, 4926
Connecticut Mutual Life Insurance Co.....	4741, 4742, 4926
Continental American Life Insurance Co.....	4742, 4743
Dominion Life Assurance Co.....	4743
Farmers & Bankers Life Insurance Co.....	4742, 4926
Fidelity Mutual Life Insurance Co.....	4742, 4743, 4926
Franklin Life Insurance Co.....	4742, 4743
Great Southern Life Insurance Co.....	4742, 4743, 4926
Great West Life Assurance Co.....	4741, 4742, 4743
Guarantee Mutual Life Co.....	4742, 4743
Guardian Life Insurance Co.....	4741, 4742, 4926
Home Life Insurance Co.....	4742, 4743, 4926
Imperial Life Assurance Co. of Canada.....	4743
Jefferson Standard Life Insurance Co.....	4742, 4743, 4926
Lamar Life Insurance Co.....	4742, 4743, 4926
Lincoln National Life Insurance Co.....	4321, 4335, 4741, 4742, 4926
London Life Insurance Co., The.....	4743
Manufacturers Life Insurance Co., Toronto Canada.....	4322, 4742, 4743
Massachusetts Mutual Life Insurance Co.....	4321, 4741, 4742, 4926

Terminations of life insurance, ordinary and industrial—Continued.

Lapse rates—Continued.	Page
Midland Mutual Life Insurance Co.....	4742, 4743, 4926
Midwest Life Insurance Co.....	4742, 4743, 4926
Monarch Life Insurance Co.....	4742, 4743, 4926
Mutual Benefit Life Insurance Co.....	4741, 4742, 4926
Mutual Life Assurance Co. of Canada.....	4743
Mutual Life Insurance Co.....	4741, 4742, 4926
Mutual Trust Life Insurance Co.....	4742, 4743, 4926
National Guardian Life Insurance Co.....	4322, 4742, 4743, 4926
National Life & Accident Insurance Co.....	4742, 4743, 4926
National Life Insurance Co.....	4926
New England Mutual Life Insurance Co.....	4741, 4742
New York Life Insurance Co.....	4332
North American Life Assurance Co.....	4743
Northwestern Mutual Life Insurance Co.....	4321, 4741, 4742
Northwestern National Life Insurance Co.....	4742, 4743, 4926
Occidental Life Insurance Co. of California.....	4322, 4742, 4743, 4926
Oregon Mutual Life Insurance Co.....	4742, 4743
Pacific Mutual Life Insurance Co.....	4741, 4742, 4926
Pan-American Life Insurance Co.....	4742, 4743
Penn Mutual Life Insurance Co.....	4742, 4926
Philadelphia Life Insurance Co.....	4742, 4743, 4926
Phoenix Mutual Life Insurance Co.....	4742, 4926
Pilot Life Insurance Co.....	4742, 4743, 4926
Provident Mutual Life Insurance Co.....	4742, 4926
Southland Life Insurance Co.....	4742, 4743, 4926
Standard Life Insurance Co. of America.....	4742, 4743
Standard Life Insurance Co., Pennsylvania.....	4926
State Mutual Life Assurance Co.....	4742, 4743, 4926
Sun Life Assurance Co. of Canada.....	4742, 4743
Union Mutual Life Insurance Co.....	4742, 4743
United Benefit Life Insurance Co.....	4742, 4743
United States Life Insurance Co.....	4926
Volunteer State Life Insurance Co.....	4742, 4743, 4926
West Coast Life Insurance Co.....	4322, 4742, 4743
Western Life Insurance Co.....	4742, 4743
Life insurance sales research bureau studies.....	4317, 4684
Terminations by type.....	4290
Terminations compared with new business and insurance in force.....	4294
Terminations of industrial insurance.....	4304
Terminations of life insurance, ordinary and industrial.....	4281
Texas Statutes.....	4699, 4932
Texas Corporation.....	4207
Texas Life Insurance Co.....	4900
Texas Prudential Insurance Co.....	4900
Theory of life insurance.....	4283-4287
Thompson Case, Lannie.....	4410-4413, 4774
Thompson, John.....	4436, 4814
Thompson, J. S.....	4757, 4865
Torrey, N. W.....	4744
Travelers Insurance Co., The.....	4224-4226, 4258, 4350, 4744, 4747
Intercompany agreements:	
Annuities.....	4515,
4517, 4520, 4529, 4531, 4533, 4535, 4537, 4538, 4550, 4551, 4826,	
4828-4833, 4836-4846, 4849-4852, 4855-4857.	
Group Association.....	4154, 4162-4164, 4173,
4174, 4181, 4198, 4207, 4687-4690, 4702, 4710, 4716	
"Jumbo risks".....	4904
Medical Information Bureau.....	4899
Nonparticipating rates.....	4229,
4230, 4232, 4236, 4241, 4242, 4245, 4254, 4256, 4259-4262, 4264,	
4718, 4719, 4721-4725, 4728-4731, 4843, 4927, 4928, 4929.	
Reinsurance.....	4673, 4674, 4925
Replacement agreement.....	4905, 4911
Settlement options and surrender values.....	4576,
4622, 4629, 4840, 4848, 4849, 4853, 4854, 4865, 4872, 4881, 4884,	
4886, 4891, 4892, 4893.	

	Page
Travelers Insurance Co. The—Continued.	
Ordinary business, volume.....	4732
Rates.....	4732
Stockholders' dividends.....	4717
Tuck, A. E.....	4179
Turner, Charles M.....	4744
Twisting (<i>see</i> Replacement agreement).	
Underwriters Association of New York City.....	4650, 4664
Underwriters' Association of the State of Georgia, legislative committee.....	4369,
	4396, 4397
Underwriting rules, Group Association.....	4711
Union Central Life Insurance Co., The.....	4350, 4744, 4745, 4747
Intercompany agreements:	
Annuities.....	4526, 4531-4533, 4828,
	4829, 4833, 4836, 4837, 4839, 4849, 4850, 4852, 4854, 4857
Double indemnity provisions.....	4855
"Jumbo risks".....	4904
Medical Information Bureau.....	4899
Settlement options.....	4576, 4605,
	4612, 4613, 4848, 4853, 4874, 4875, 4879, 4881, 4889, 4891
Union Labor Life Insurance Co.....	4900
Union Mutual Life Insurance Co.....	4747, 4899
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Unique Manual Digest.....	4225, 4606
United Benefit Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4900
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
United Fidelity Life Insurance Co.....	4900
United Life and Accident Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4899
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
United Shoe Machinery Co.....	4453, 4462, 4487
United States Department of Agriculture.....	4223
United States Department of Commerce.....	4352
United States Department of Labor.....	4272
United States Life Insurance Co.....	4744, 4745, 4747
Intercompany agreements:	
Annuities.....	4520, 4526, 4528, 4529, 4531, 4532, 4842, 4843
Medical Information Bureau.....	4899
Settlement options.....	4576, 4849, 4881
Lapse ratio.....	4926
Utah Revised Statutes.....	4932
Vermont public laws.....	4932
Vernon's Statutes.....	4699
Victory Life Insurance Co.....	4900
Virginia Code.....	4932
Volunteer State Life Insurance Co.....	4747
Intercompany agreements:	
Medical Information Bureau.....	4899
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
Vrooman, John W.....	4744
Wadsworth, L. E.....	4761
Ward, Dr. Leslie D.....	4744-4745
Warren, Walter.....	4761
Washington:	
Remington's Revised Statutes.....	4701
Revised Statutes.....	4932
Washington Life Insurance Co.....	4744

Washington National Life Insurance Co.:	
Industrial terminations.....	4306-4307
Intercompany agreements:	
Medical Information Bureau.....	4900
Replacement agreement.....	4911
Way, John L.....	4163, 4688, 4689
Webb, Walter E.....	4650, 4904
West Coast Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4899
Lapse.....	4322
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Lapse ratio.....	4926
West Virginia Code.....	4932
Western & Southern Life Insurance Co.....	4306, 4307, 4747
Intercompany agreements:	
Medical Information Bureau.....	4899
Replacement agreement.....	4911
Western Empire Life Insurance Co.....	4900
Western Life Insurance Co.:	
Intercompany agreements:	
Medical Information Bureau.....	4900
Lapse rate, 1925-28.....	4742
Lapse rate, 1929-38.....	4743
Western Life Insurance Co., Ontario.....	4900
Western Union Life Insurance Co.....	4159, 4160, 4254
Western Reserve Life Insurance Co.....	4900
Wharton School of Finance.....	4662
Wheeler-Rayburn bill.....	4441
Whiddon, W. S.....	4761
White, Clinton C.....	4364, 4429-4433, 4805-4806, 4810
Whitman, Russell R.....	4770
Whitman Savings Bank, The.....	4454, 4475, 4481, 4488
Whitsitt, Vincent P., manager and general counsel, The Association of Life Insurance Presidents.....	4376, 4386, 4387, 4415, 4664, 4755-4757, 4763, 4802, 4806, 4813, 4814
Testimony of.....	4345-4373, 4389, 4394-4396, 4419-4446
Wigglesworth, George.....	4453
Wilde, Frazer B.....	4351, 4757
Wilkes-Barre Association of Life Underwriters.....	4427, 4802
Wilson, George T.....	4744
Wilson, Harry.....	4670, 4672, 4918, 4919
Wing, Asa A.....	4744
Wisconsin Life Insurance Co.....	4900
Wisconsin National Life Insurance Co.....	4900
Wisconsin Statutes.....	4932
Wood, W. A. P.....	4835, 4865
Woodmen of the World Life Insurance Society.....	4899
Woollen, Herbert M.....	4669, 4672-4674, 4683, 4757, 4918, 4919
Wyoming Statutes.....	4932
Yeoman Mutual Life Insurance Co.:	
Intercompany agreements:	
Replacement agreement.....	4911
Yonge, J. E.....	4763
Yost, Albert H.....	4436, 4757, 4813-4814
Youngman, Arthur V.....	4447
Zacher, L. Edmund.....	4229, 4232, 4243, 4259, 4260, 4263, 4275, 4350, 4717, 4718, 4720, 4722, 4724, 4757, 4831, 4837

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